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AMERICA THE GOLDEN

AN ENGLISHMAN'S NOTES
AND COMPARISONS

BY
RAMSAY MUIR

*America the Golden,
With milk and honey blest,
Beneath thy contemplation
Sink heart and voice, opprest!*
POPULAR HYMN

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P R E F A C E

DURING the autumn of 1926 a lecturing tour took me over a considerable part of the United States, especially the industrial areas of the East and the Middle West. Being a member of the committee which is carrying out the Liberal Industrial Enquiry, I seized every opportunity of learning what I could about American industrial methods and experiments. With the technique of production I did not, of course, concern myself: my modest enquiries were limited to the social and political aspects of the industrial problem. Some of the impressions which I formed, especially as they bore upon the subjects of our enquiry, were embodied in a report which I submitted to my colleagues on my return. They thought it presented a sufficiently fresh and independent view to deserve publication. Here, accordingly, it is. But for these circumstances, I should not have thought of putting into print my judgments, formed during a visit of a few months, upon the most dazzling and gigantic economic development of our own or any other time.

The purpose of the following chapters is, not to attempt any exhaustive analysis of industrial conditions in the United States, for which I am not competent, but to emphasise those features of the American situation which may be of help to us in framing an Industrial Policy for England.

A good deal of caution is necessary in doing this. Because America is very prosperous, while all the

other industrial nations are suffering a greater or less degree of adversity, there is a temptation to assume that all we need to do, in order to recover prosperity, is to imitate American methods, or even to adopt some particular feature of the American system—high tariffs, for example, or mass-production, or the high-wage and high-consumption theory, or the banking system, or the open shop, or prohibition.

Those who adopt this mode of argument, and use the American example as a means of demonstrating their own pet theories, habitually disregard the profound differences between the United States and England—differences which are so great as to make any argument from one country to the other extremely precarious.

There is a great deal to be learnt from the business methods and the industrial organisation of the United States, both by way of example and by way of warning. But those methods and that organisation are not the sole or even the main causes of American prosperity, which springs in a large degree from the very facts that unalterably differentiate British from American conditions. Indeed, some of the most distinctive features of American industry arise directly from precisely those factors which it is impossible for us to imitate. I have sometimes felt, in reading the numerous books and articles about America which have been pouring from the press, that these essential facts are not always kept sufficiently in mind by the writers. I hope I have avoided the error in the following pages.

I happened to be in America at the same time as the Mackenzie Commission, who, with every kind of official and private help, went everywhere and saw whatever they asked to see. I lacked these

advantages. But, on the other hand, my judgments were my own : they had not to be accommodated to the greatest common measure of a group of diverse minds. The following chapters, though published under the auspices of the Liberal Industrial Enquiry, express a purely individual and personal view ; and I alone am responsible for the opinions they contain.

RAMSAY MUIR.

RICHMOND,
April 1927.

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AMERICA THE GOLDEN

CHAPTER I

THE DIFFERENCES BETWEEN AMERICA AND ENGLAND

AN Englishman, visiting the United States, is impressed, everywhere and every day, by the evidences of an ebullient prosperity and a confidence in the future, which are sadly lacking in his own country. He longs to be able to bring back with him a recipe for reproducing this prosperity and this energetic hopefulness in the old country. He hears continually from his American friends that America owes her well-being to the methods which her captains of industry and her workers have pursued, and that these methods are perfectly capable of being transferred to England. There is no good American who does not desire that every other country should be as prosperous as his own, and few who do not in their hearts believe that it is their own fault if they are not so. Many foreign visitors insensibly imbibe this point of view. They can hardly help doing so. And they return primed with cocksure notions which sound well in speeches, or look well in print, but which somehow seem irrelevant when they are applied to the hard facts.

Doubtless there are many lessons which we can learn from America. Doubtless, also, there are some lessons, even in the sphere of industry, which America can learn from us. But what these lessons are, and how they can be applied, we cannot hope to appreciate unless we have a very clear idea of the fundamental differences between the conditions existing in the two countries. Only when we have

firmly grasped these differences can we begin to learn our lessons. This, therefore, must be the necessary theme of our first chapter.

(a) *Natural Resources*

The primary and the most obvious difference between the two countries, in the industrial sphere, lies in the glaring contrast presented by their command over the natural resources which industry has to use.

With the single exception of coal, there is not one of the primal needs of industry which we can produce from our own resources on a scale adequate for our needs. All the rest we have to buy, with the products of our labour, from other countries. The United States, with only 7 per cent. of the world's population, produces from its own resources 22 per cent. of the world's wheat, 43 per cent. of the world's coal, 60 per cent. of the world's steel, 58 per cent. of the world's cotton, 72 per cent. of the world's oil. America is dependent upon the outer world for one of the major raw materials necessary for modern industry—rubber—and for a few minor materials, such as shellac and jute. But with these exceptions there is no important need of modern industry which America does not or cannot produce superabundantly from her own resources. Once these resources had been sufficiently explored and developed, as they were during the nineteenth century by means of man-power drawn from Europe and capital largely drawn from England, nothing could prevent America from becoming the most prosperous country in the world. There would have been something strangely wrong with her system if her people had not enjoyed a higher standard of material comfort than was attainable by the peoples of other countries. This is the main, and the abiding, cause of American prosperity. It cannot be imitated.

It is, indeed, often argued that if we consider the resources of the British Empire as a whole, they dwarf even those of the United States, at any rate in potentiality. There is much to be done in the development of imperial resources, and we shall profit by playing our part in the process. But the argument is fundamentally misleading. The self-governing members of the Empire are distinct economic entities, and are determined to remain so. Even in the dependencies what we wield is sovereignty, not ownership: Heaven forbid that we should be tempted to obscure the distinction; the resources of these lands belong primarily to their inhabitants. The economic entity with which we are concerned, and for whose citizens we have to secure the means of adequate maintenance, is the island of Great Britain, whose natural resources are wholly insufficient to support its crowded population. This contrast with the United States is fundamental, and it dominates the whole economic situation, and makes all analogies between the two countries precarious.

(b) *Self-sufficiency and Interdependence: Protection and Free Trade*

From this contrast a second follows. The United States offers to its industrialists, within its own limits, the largest and richest free-trade market that exists in the world, a market whose purchasing-power is incomparably greater than that of any equivalent number of people in the world. American prosperity is therefore due, in a high degree, to the stimulus of free exchange on the greatest scale on which it has ever been practised. These two facts—America's vast resources and her immense free-trade market—make her as nearly as possible self-sufficing. If all the rest of the world were submerged, she would still be able to secure for her

people a material condition substantially as comfortable as they enjoy to-day. For this reason America can afford to pursue the policy of protection, which is the policy of self-sufficiency. Her industrialists attach so much value to the monopoly of their vast home-market that in order to secure it they are prepared to pay the price of a protective system, which is partial exclusion from other markets. For the nation which will not buy cannot expect to sell ; in the long run it can only sell as much as it buys.

We, on the other hand, are not and can never be self-sufficing. If the rest of the world were submerged, at least one-third of our population would be sentenced to death by starvation within a few weeks, and the remainder would be reduced to bare subsistence rations. We are therefore forced to recognise our dependence upon the rest of the world, and to pursue the policy of interdependence, which is the policy of free trade. That is our rôle in the world—to be the protagonists of interdependence, economic and political ; and we shall depart from it at our peril. The free-trade market which is open to us is, however, a limited one, and is steadily shrinking. Most of it consists of backward countries of very low purchasing power. Yet, under whatever difficulties, we *must* sell our goods to all the world ; and therefore we must take in payment whatever our customers can send us, selling again what we do not need for our own use, and thus supplementing our industrial production by entrepôt trade, which forms a substantial part of our means of livelihood. Those who tell us that we ought to adopt protection because America is prosperous under protection overlook this fundamental difference between the two countries. Only a country which is self-supporting can afford to pursue the policy of self-sufficiency.

It is probable that America will in time abandon

high protection, though there are as yet few free-traders among her citizens. A number of American industries have reached the point at which they need foreign markets for their surplus production. At present the effect of protection in limiting this outlet is masked from the American people. American exports are now pouring into all parts of the world. But in so far as the tariff prevents their being fully paid for by imports, the payment has to remain in the purchasing countries. It remains in the form of investments, or mortgages on the productive activities of these countries. Thus America is reversing the process whereby her own development was encouraged by the investment of foreign capital : she has become an exporter instead of an importer of capital. But there is this difference. The interest on English investments in America used to be paid and willingly received in the form of American exports to England. The interest on American investments in Europe cannot, because of the tariff, be paid in European exports to America. It must therefore be reinvested in the countries in which it is earned. But this process cannot continue indefinitely. If it did so, it would logically end in the practical ownership of Europe by America—especially as the debt payments are working in the same direction. In time the American people will learn that, so long as they adhere to the policy of high protection, no material return for their foreign investments can come into America : all that they can get is a dangerous control over the industries of other countries, which is wielded by a few big financiers. And already the European peoples are beginning to take alarm at the prospect of an economic domination by America, and to organise to resist it. If it continues, the result may be an economic war of continents ; and economic

“continentalism” might be yet more disastrous than economic “nationalism.”

American agriculture is already chafing under protection. If important American industries begin to realise that it is hampering their outlets, the protective system may in time be abandoned. If that happens, what will the result be for us? We shall get easier access to the great American market. But we shall also be exposed, in the rest of the world, to the full blast of American competition, unchecked by the existing obstacles. If we have to meet this competition before we have set our house in order, Heaven help us.

America's huge home-market is, then, one of the chief causes of her wealth. America's tariff barrier against the world does nothing to enrich her, but prevents her from fully developing the possibilities of export trade, and from securing full and direct payment for what she does export. Her industries, for the most part, do not need protection; most of them could hold their own against all competition. At the moment, her tariff wall protects not her, but us. It protects us against the full force of her competition. While it remains standing, we have time to reorganise

(c) *Effects of the War*

The already enormous natural advantages of America have been immensely accentuated by the War.

(1) During the period 1914-1917, before she entered the War, she acquired practically the whole of the capital which had been supplied by England and Europe for her early development, as part payment for the goods she was supplying at fancy prices; the interest on these investments is therefore no longer available to pay for her exports.

(2) During the same period she took over a large

part of the foreign trade which England had to abandon in order to concentrate upon war-production, and she has retained a good deal of it.

(3) Since the War, by exacting payment for the aid she rendered to the Allies other than her fighting-forces (and her troops were in the line of battle for only four months out of the sixteen she was at war), she has turned all the crippled nations of Europe into tribute-payers, and is in effect the sole recipient of German reparations. But, as she cannot receive payment of these debts in gold, and will not accept it in goods, she is taking payment for them, as for many of her exports, in mortgages on the productive activities of other countries.

(4) Finally, the War gave her an unassailable predominance in certain new industries which were just beginning to be important when it broke out—notably the automobile industry, the cinema industry and the development of electric power. Electricity and the automobile are among the most important elements in what has been called the Second Industrial Revolution. They are playing the part which steam-power and railways played in the first Industrial Revolution. And just as the circumstances of the Napoleonic War gave to England a lead in the use of these new forces which ensured her pre-eminence for more than half a century, so the Great War has given to America a similar lead in the use of the new forces of to-day.

The cinema industry may appear less important. But it affords a useful illustration of the possible effects of economic domination. The film is a new art-form, which, since it speaks a universal language, can be peculiarly valuable in making peoples intelligible to one another, provided that there is free exchange of this form of self-expression. But the American domination since the War has been so

complete that almost the only social and æsthetic ideals which are impressed upon the gaping millions of the picture-houses are those of America—or, rather, of Hollywood. And since the big revenues earned by the sale of films cannot be transmitted to America in gold or goods, they are used for the purpose of buying or building chains of picture-houses tied to show only American films. Thus a moral and æsthetic (or pseudo-æsthetic) domination follows from economic domination.

(d) *Prohibition*

Yet another consequence of the War has been the adoption of prohibition. The results have been of profound social and economic importance. Beyond question, prohibition has prevented a vast deal of economic waste, has encouraged saving and productive consumption on a very great scale, and has thus greatly increased the economic strength of the United States. To me it seems to be equally beyond question that prohibition has created a very formidable vested interest in law-breaking, has produced a new kind of corruption in politics, has fostered hypocrisy, has very gravely undermined the habit of law-observance, and has contributed to produce the wave of crime and moral laxity which is one of the problems of contemporary America. Whether the gains achieved were worth the price paid for them is a question for a moral accountant more competent than I am. But of the economic gain there is no doubt at all.

In all these material respects—in the magnitude of her natural resources, in the vastness of her free-trade market, in her economic self-sufficiency, in the tribute she is able to exact from the impoverished and debt-laden countries of Europe, in the lead she has obtained in the characteristic industries of the new industrial revolution, in the economic strength

she has drawn from prohibition—America has established advantages which it is impossible for the European peoples, and more especially for England, to reproduce. And this must never be forgotten when analogies are drawn or imitation suggested.

(e) *Differences of Social Outlook*

Besides these material differences, there are others, moral or social in character, which must not be overlooked.

America, being a new country, is largely free from the inheritance of tradition which is always a controlling fact in the older countries. For one thing, she is free from the dead-weight of old-standing national jealousies, except such as she chooses herself to maintain; and, being unthreatened by any power, need not spend more upon the costly paraphernalia of defence than the satisfaction of her pride demands. This is an immense alleviation of the public burdens laid upon her citizens, who are enabled to devote their communal resources almost wholly to the increase of their own efficiency. For another thing, she is relatively free from the inherited burden of congested and unwholesome housing conditions, which not only reduces the virility of our people, but imposes upon our productive activities a very heavy burden of rates, for which we have to thank our fathers' lack of foresight.

In other respects America's freedom from tradition is a cause of mixed loss and gain.

It is a cause of loss in so far as the absence of a tradition of political service among those who can afford to render it has brought politics into low esteem, made politicians too often corruptible, and produced in the public mind a distrust of the capacity of public authorities to provide competent leadership for the nation.

It is a cause of gain in so far as it has destroyed the inhibitions that caste-feeling exercises upon the energies of the community. In England the life of idleness on inherited wealth, even of quite wasteful idleness, is still enviable and respectable; in America, except in a very limited circle, it is disgraceful. In England the son expects to succeed to the status of his father; in America he expects to make his own way, and social habit requires him to be self-supporting at the earliest possible moment. In England nine out of ten workers take it for granted that they will pass their lives in the kind of work to which they are drawn, by chance or heredity, in youth; and, though things are mending, the avenues of escape are not easy. In America men still pass readily from one occupation to another, though not so readily as formerly; every boy, whatever his origin, conceives himself to have as good a chance of becoming a millionaire as his neighbour; and the chances open to him are immeasurably greater than here.

The difference of temper is nowhere more clearly shown than among undergraduates. A large proportion of American students work their way through their courses, and prefer (as one Harvard man put it) "not to be dependent upon the charity of parents or scholarships." Even the sons of rich men commonly take jobs, often manual jobs, during their vacations. At the beginning of the Christmas holidays of 1926 I travelled in a Pullman car full of undergraduates on their way home from one of the most famous of American colleges. These boys were all well-to-do, or they would not have travelled by Pullman on a short day journey. They all lived in expensive Fraternity Houses. Most of them owned their own motor-cars. But they were all talking about the jobs they were going to take for

the short Christmas holidays. One of them said he was not going to work this time ; but feeling that an explanation was necessary, he hastened to add that this was because he had lost three weeks of term through illness, and had to make up what he had missed. How many English boys do this ? There is some intellectual loss in the practice, for the few. But there is great gain for the many.

America, in short, is a country in which the wealth-making activity is regarded as the chief interest and the natural occupation of men, and in which the ambition to " make good " in this sphere, and the sense of personal responsibility for doing so, are almost universally diffused. England is a country in which wealth-making activity is indeed esteemed, but the possibility of living comfortably without such activity is at least as highly esteemed. In England a snob pretends to be a gentleman of leisure ; in America he pretends to be immersed in big business. The contrast is not quite so sharp as I have made it, but it is real ; and it is profoundly important.

(f) *Contrast of Political Systems*

There remains to be noted a political difference between England and the United States which is of supreme importance when we are considering the framing of a national policy on industry.

In a sense, there can be in America no clearly formulated or consistently pursued policy on industry, except as it is imposed by a common body of opinion. For in regard to all the most important aspects of industrial regulation, America is not one State but forty-eight States. Almost all social, industrial and economic action falls within the sphere of the State legislatures. Each of the States has its own system of company law ; and as a company can be registered in one State but carry

on business exclusively in another, company promoters register their companies in that State whose law gives them the greatest freedom. Small States, such as Maine, Delaware and Arizona, compete for the profits of registration; and the gross abuses which have grown up in these circumstances are almost beyond belief.

Again, each of the States has its own system of social legislation for factory-regulation, child-protection, social insurance (so far as this exists at all) and the like. The United States cannot, even if it wished to do so, ratify the conventions of the International Labour Office, because on the subject-matter of these conventions the individual States are sovereign; and all the forty-eight must be separately persuaded to adopt any proposed measure. This is why there are still 1,000,000 children between 10 and 15 working in American factories. This is why, in large areas, the eight-hours day does not exist, and ten hours a day, or even more, are worked. This is why there is no system of Old Age Pensions, or of Health Insurance, or of Unemployment Insurance, in the United States. The process of piecemeal persuasion is too slow and difficult, and the reactionaries in each State are always armed with the powerful argument that if such-and-such a reform is forced upon them they will be penalised as compared with employers in other States, and the industry will shift to where it gets more favourable treatment. It has taken twenty years of persistent labour to get a system of Workmen's Compensation established. In some States, notably Ohio, an admirable system now exists, but it has only been extended generally through the persistent activity of an Association for Labour Legislation, which strives to perform something like the same functions that the International

Labour Office performs for the other nations. Even now there are several States in which no system of Workmen's Compensation exists, and many in which the system is very inadequate.

The seriousness of the obstacles thus placed in the way of an enlightened industrial policy can scarcely be exaggerated. They would have produced grave results if it had not been that, for the reasons already given, America has been so abundantly prosperous that good labour conditions came, in most parts of the country, though not everywhere, almost as a matter of course. When the opponents of progressive social legislation point to the absence of such legislation in prosperous America as an argument against it, or even suggest that America is prosperous *because* she has so little social legislation, let it not be forgotten that she has little social legislation mainly because of these political obstacles; and that she has been able to prosper without it because her prosperity is due to the causes already analysed, which are not reproducible in England.

State sovereignty in the economic sphere has been slightly, but only slightly, qualified by the establishment of the Inter-state Commerce Commission, Inter-state Commerce being outside the sphere of the individual States. But even this has absurd results. A conductor who is injured in Ohio on a train running from New York to Chicago has no claim to compensation, because he does not fall under Ohio State Law, being engaged in Inter-state Commerce. A docker, engaged in loading a ship, passes to and fro, as he crosses the gang-plank, from the sphere of State Law on land to the sphere of Federal Law on the ship. If he has an accident, the scale of his compensation will depend upon whether he was on one side or the other of an imagin-

ary line half-way up the gang-plank when the accident occurred.

Attempts have been made to expand the powers of the Federal Government under the cover of interstate commerce, but they have been firmly checked by the Supreme Court. Thus Congress tried to deal with child-labour, on the ground that the children were employed in the manufacture of articles which were sold in more than one State. Their enactment was declared unconstitutional. Behind the obstacles presented by the powers of the States there thus lies the further obstacle presented by the practically unalterable constitution, of which the Supreme Court is the final interpreter. Any Act even of a State legislature which the Supreme Court holds to be in conflict with the ideas of the framers of the Constitution in the eighteenth century may be declared invalid. More than that, the Supreme Court is the final interpreter of the Common Law, the old English Common Law which is conceived as being valid except in so far as it has been legally altered since 1783. On this ground it may, for example, grant injunctions against Trade Unions similar to those which were granted by English judges under the Common Law before the Acts of 1870 and 1875, or in the Taff Vale judgment. And there is no appeal from their decision, short of an alteration of the Constitution.

The fact that America has no definite national policy of industrial and social reform is not to be used as an argument against our adopting such a policy; the fact that she has thriven without it is due to the broad causes which have made her rich. But the day may come, and indeed is certain to come, when her impotence in this regard will seriously cripple her. It is not by the deliberate

will of her people that she has no such policy, but because she is subject to the dead-hand of a rigid constitution framed by the theorists of the eighteenth century, and very difficult to adjust to the changing needs of a new age. We ought to rejoice that we are free from this mortmain ; and that, at a time when common national action is supremely needed, we are free to take it.

Is it not plain that arguments based upon American conditions or practices must be used with extreme caution ? Is it not clearly dangerous to argue from a self-sufficient country to a country dependent for its existence upon foreign trade, from a country with an immense free market to a country whose free market is shrinking, from a country which can afford protection to a country which dare not desert free trade, from a country which exacts tribute from all its rivals to a country which is loaded with debt, from a country which has been inconceivably enriched by the War to a country which has been immensely impoverished by the War, from a country to which chance has given the lead in the key industries of the new era to a country which has great leeway to make up in that respect, from a country which only respects the life of wealth-making to a country which esteems the life of leisure, from a country which cannot act as a unit in industrial policy to a country which easily can, from a country which is governed by the dead hand of the eighteenth century to a country which is free to shape its own course ?

Clearly, in studying what America has to teach us, we must consider every device or suggestion in its bearing on our own conditions ; and not be ready to endorse anything merely because it is done in prosperous America.

CHAPTER II

SPOTS ON THE SUN

EVEN the prosperity of America is not without shadows. From three quarters in particular lamentations are arising. All three have significance for us.

(a) *The Distress of Agriculture*

In the first place agriculture, which used to be the backbone of American prosperity, is under a cloud. The farmers still constitute about 27 per cent. of the population. The proportion has gone down rapidly during the last quarter of a century, partly because of the immense growth of the towns, partly because labour-saving methods have been applied to agriculture on a large scale. The investment in farm property is estimated to form one-fifth of the total capital of the United States, and agricultural products still form one-half of the exports. Although only about one-third of the cultivable area is in use, there seems to be an arrest of development. Up to 1900 the increase in farmed land was about 24 per cent. a decade ; from 1900 to 1920 it sank to 7 per cent. ; since 1920 there has been a decrease. Some farm land is going out of cultivation. Exports are diminishing and imports increasing. It has been estimated by the Industrial Conference Board that the average return on capital in farming has latterly been only $1\frac{1}{2}$ per cent., and that the average farmer in the last five years has had (apart from the food, fuel and shelter supplied

by the farm) only \$170 per annum—£34—for all other costs, including the education of his children. Costs have greatly increased as compared with pre-War, while prices have shown no proportionate growth; and the result is, in many cases, heavy loss. This is heaviest when the crops are best; the cotton-grower last year had to face a dead loss on every pound he produced. Bankruptcies have gone up from 20 to 135 per annum per 100,000 farms. In the Middle West bank failures have become numerous. It is impossible to keep the farms in good condition. The older generation of farmers are selling out whenever they can afford to do so. A great number of the farmers of Iowa, which has some of the best land in the country, have during the last few years sold out and gone to live a life of idleness in sunny California. The children of the farm are seeking work in the cities. The farms are in some cases left derelict, in others taken over by immigrants who have no adequate capital; and the quality of the farming population is undergoing a very perturbing decline. In short, a situation not unlike our own has been produced.

What are the causes of this? An eminent American political scientist said to me: "The one dominating fact about our economic condition is that the ruthless efficiency of industry is sucking the life-blood from farming, upon which the health of the nation depends: we have wasted our forests, we are wasting our coal, we are denuding our soil, and now we are devouring our manhood." Can this diatribe be justified?

Because he exports on a great scale, the farmer has to sell his products at the world-price. He gets no advantage from the protective tariff, especially as he is unable to combine to mulct the home market, or to hold back his produce until

prices rise. The tobacco-growers indeed tried this, for a time with some success ; but their co-operative organisation was ruined partly by the fact that many did not join it, thus sharing the benefits without sharing the cost of securing them, and the others did not see why they alone should pay ; still more because the managers used their position for their own advantage—some of them went to gaol. No such co-operative achievement as the western farmers of Canada have brought about seems to be practicable in the United States : there is not enough mutual confidence.

While the farmer derives no benefit from protection, he has to pay enhanced prices under the protective system for everything he uses. This was the theme of much bitter comment at two conferences which I attended. But the farmers' spokesmen had not the courage to demand free trade, or even reduced tariffs—no doubt because they knew they would be unsuccessful. They demand, rather, supplementary forms of State protection or subsidy, such as will place them on a level with the industrialists ; but the industrial interests which control the Republican Party, and, indeed, almost all the economists, are strongly opposed to any device of this sort.

The discontent of the farmers has been a political force of importance in the north-west for twenty years. It was at the back of the farmer-labour combination which was the chief strength of La Follette, and politicians of both parties pay timid and insincere deference to it. To-day Minnesota sends to the Senate one farmer-labour member, who seems likely to hold the balance between parties in that house in the next Congress. An Act (known as the Haugen-McNary Bill) to create a fund of \$250,000,000 for the purpose of keeping up

home prices, has actually passed through both houses, and has only been stopped by the President's veto. The majority of those who voted for it did not believe in it, and trusted the President to destroy it: by doing so he may have seriously damaged his chance of re-election. One of the most likely Republican candidates for the Presidency in 1928—ex-Governor Lowden of Illinois—has made himself the advocate of the farmers' cause. Though he does not definitely support the Haugen-McNary Bill, he seems to advocate (if I may judge by two of his speeches which I heard) a system of State-backed compulsory co-operatives for the growers of each principal crop, who shall have the power (and the finance) to withhold from sale enough of the crop to ensure a remunerative price, releasing it later. This represents a high degree of State intervention. Some means of stabilising the prices of staple crops may be desirable; but world-crops can only be stabilised upon a world-basis, and the United States will not have anything to do with world-co-operation in its present temper.

The depressed condition of the agricultural interest is, in short, a grave shadow upon the ebullient prosperity of the United States. No solution for it is in sight. It is not only a contrast to, but in some degree a consequence of, the flamboyant prosperity of industry. The friends of the farmer complain that his already great difficulties are intensified, not only by high protection, but by the "high consumption" into which, like the rest of the world, he has been drawn. Like his neighbours, he buys motor-cars, victrolas and radio-sets, as well as Fordson tractors, harvesters and other implements, on the instalment system; and all his earnings being thus mortgaged he is unable to spend what is needed on his farm. An intelligent com-

mercial traveller in Indiana told me (and his judgment was confirmed by others) that every farmer he knew was debt-logged in this way. In particular, he said, they had mostly been landed with Fordson tractors which were very expensive to run, were unsuitable to that country-side, and on small farms cost more than the old system. That is one aspect of the frenzied "selling-drive" upon which the motor-trade, and other trades also, depend for their hectic prosperity. If the pictures of the farming community which are generally drawn are not greatly exaggerated, a serious situation seems to be impending.

(b) *The Disorganisation of the Coal Industry*

The second lamentation comes from the coal industry. Here the chief complaint is of very wasteful over-production. In spite of the growth of alternative forms of power, hundreds of new mines have been opened, and a vast deal of capital has been sunk in them. The labour-force of the mines is consequently far greater than can be regularly employed, except when a windfall like the British stoppage comes to their relief: according to one competent estimator, there is a labour-surplus of something like 25 per cent. The result is that under-employment is normal; and while nominal wages are high, the yearly remuneration of many miners is less than adequate, at any rate according to prevalent American standards.

The governing fact in the situation is that only a few of the coal-fields (chiefly Pennsylvania, Ohio, Indiana and Illinois) are fully unionised: the fields in the more backward States of West Virginia, Kentucky and Tennessee are unorganised, and it appears that the whole strength of local authority is turned against Union development. One Trade

Union organiser told me that, being sent to West Virginia to organise the miners, he was met by a Sheriff as he descended from his train, and given the option of returning by the next train or going to gaol. This may or may not be true ; but it is certain that every sort of pressure is used to resist the spread of Trade Unionism to the non-Union fields.

The contrast between the Union and the non-Union fields is one of the chief causes of over-production. Whenever there is a strike, or any serious trouble, in the Union fields, new mines are opened in the non-Union fields ; and once the capital has been sunk, they go on working. Economic theory would suggest that the competition of the more efficient mines would drive the less efficient out of existence, but this does not happen. The result of this process has been that the non-Union fields now dwarf the Union fields. Union labour used to produce about 60 per cent. of the coal ; it now produces 27 per cent.

In the non-Union fields conditions are often bad, and many tyrannies are practised. Housing is in many cases wretched. Schools are inadequate. Hours are long. There is no system of unemployment insurance, nor is there any adequate system of accident compensation. Government supervision of the mines, being a State not a Federal function, is far from efficient. The Federal Government has an admirable Bureau of Mines, staffed with experts of the first class, but it has no power to interfere, or even to enquire into the causes of accidents or suggest remedies, except on the invitation of the mine-owner.

In both sections of the mining areas strikes or lock-outs are frequent. They are commonly fought, especially in the non-Union fields, with ruthless brutality ; and there is no trade in America in

which the spirit of class-war is stronger, unless it be the women's garment trades. The employers are said to welcome an occasional strike, because it enables them to get rid of their surplus production at good prices, while saving their overhead expenses. A new stoppage, which has since begun, was being anticipated quite calmly when I was in America, nor was any serious effort being made to prevent it. Many employers seemed to hope that its result would be the destruction of Trade Unionism in the fields where it has hitherto triumphed.

In the unionised fields the employers complain that the Unions deliberately restrict output, and resist the introduction of labour-saving machinery. This is the same charge that has been made in England, where the output per man is only half as great ; but it should be remembered that, as American coal is generally much nearer the surface, much less labour is needed to bring it to the pit-head. Labour-saving machinery has not yet been by any means fully developed. Under-cutting machines are indeed common, though far from universal ; but loading and conveying-machinery (which forms the main element in the full mechanisation of the mines) is developing but slowly. Some of the best employers strongly advocate the Unions as the only protection of the men, and in a country where the functions of Government regulation are divided among forty-eight authorities of very different degrees of efficiency and honesty, this would seem to be obvious. I heard one very able employer, Mr. McAuliffe, who works a group of mines in Wyoming, assert that he had experienced no difficulties with the Union, even in the introduction of machinery, so long as he took the miners into consultation and avoided sudden displacements of labour. This, however, is a very uncommon

attitude. In general, the attitude of even the best employers is one of uncompromising opposition. As in this country, and even more than in this country, coal-mining is the industry in which the conflict between capital and labour is most acrimonious.

I had the advantage of listening to an extremely well-informed discussion of the whole mining problem at a joint meeting organised by the Economic Association and the Association for Labour Legislation. Academic and Government experts, employers and miners all agreed that the root of the whole matter was the constant opening of new mines with the consequence of a big surplus of labour. But they had no recommendations to make.

In the interests at once of national economy, of the consumer, of the mine-owner and of the miner, some system of expert regulation capable of preventing over-lavish new development, and of ensuring that the mines are economically grouped, would seem to be the only hope of improvement now that the industry (like our own) has reached the close of the phase of unlimited expansion owing to the emergence of other sources of power. In this country the Liberal Party, endorsed on this head by a Royal Commission, has wrought out a scheme for achieving these ends, based upon the public acquisition of royalties, and the assignment of large powers to a small expert body of Royalty Commissioners, who would use the leasing-power as a means of ensuring that the coal resources of the country were wisely utilised. No such scheme is practicable in the United States, because of the divided jurisdiction of the various States, which the Federal Government cannot override. It is possible for us, as it is not for America, to work out a combination of national regulation with private enter-

prise in the exploitation of a fundamental national asset. It is also possible for us to secure a reasonable parity of conditions in the various mine-fields, and to bring about, under the authorisation of the State, some sort of organised partnership between management and labour in the determination of conditions. We have recently sacrificed an opportunity of achieving this, but it is still capable of being achieved. In the United States, as things are, this seems to be beyond hope: the unalterable Constitution stands in the way.

(c) *The Decline of New England*

The third group of lamentations comes from the industrialists of New England, who find that they are losing ground to the West and the South. The boot and shoe trade, long one of the main activities of New England, has largely passed to Ohio and St. Louis. The cotton-trade, which was the chief industry of New England, is rapidly being transferred to the Southern States, especially Alabama, Georgia and North Carolina. These States are near the sources of supply of raw material; in them, also, labour is cheap and there are few of those vexatious restrictions imposed by social legislation which many employers detest. Child labour is freely employed. A day of ten hours, or even more, is worked. There are no provisions, or inadequate provisions, for accident compensation. And Trade Unionism is (from the employer's point of view) refreshingly weak—almost non-existent. The employer in the Southern States is therefore "master in his own house." He can "fire" at a moment's notice anyone who shows restiveness, just as Ford does at Detroit; and, in general, he is quite ruthless. A genial ruthlessness is, indeed, the American note. The New England employers complain, not

without some justification, that these conditions put them at a disadvantage, though it cannot be pretended that the employers of Lowell and other New England towns have been in the past precisely generous in the conditions they have offered to the cheap Polish and other foreign labour they imported. Restricted immigration has stopped this source of supply, and has thus enabled the New England operatives to stand out for better wages and conditions. This has given an advantage to the South, where not only black labour, but the prolific offspring of the primitive white people of the hill country, are ripe to be exploited. Wages may be higher in these regions than in the industrial areas of European countries, though they are far from reaching the levels supposed to be characteristic of America by those who think that Detroit is America. But in other respects labour conditions in these new factory areas are worse than in the more advanced industrial countries of Europe. They must assuredly, in time, bring about revolt; but in the meanwhile the separate jurisdiction of the various States makes progress slow.

The bad labour conditions of the South, though they are used as an argument against social reform in other States, cannot fully explain the retrogression of New England as an industrial centre. Bad labour conditions are never economically advantageous. New England is in reality suffering from two causes very familiar to us: labour friction due to a long tradition of conflict and the suspicion which it breeds; and undue conservatism on the part of employers, largely arising from the use of inheritance rather than proved efficiency as the qualification for control. "New England is infested with family businesses, with trustees who hold controlling blocks of shares, and with young men

who go straight from Harvard into controlling positions": so Mr. Henry Dennison summarised the situation to me. He is himself the head of an inherited business, which he has reconstructed on a basis that has divested him of controlling power, except such as he can win from the confidence of his workers: I shall return to his method later.

The New Englanders have been taking counsel together (November 1926) to see how they can mend their ways. They called in the aid of the Federal Department of Commerce, and Dr. Julius Klein of that department came to instruct them. His advice was based upon a survey of New England industry carried out by the department. He told them that "The major cause of mortality in industry is not found among the commonly accepted alibis for failure—excessive wages, discriminatory freight rates, inaccessible raw materials, remoteness of markets, etc., but rather in the lack of intelligent buying and selling. . . . It may be doubted," he went on, "whether experience really is 'the best teacher' in the field of commerce and industry, if we take 'experience' to mean the accumulation of tradition and a devout adherence to past practices." And his recommendations were—scientific research in marketing, the avoidance of waste in distribution, and diversification of output so as to minimise seasonal fluctuation. The last of these recommendations (it may be observed) is flatly in conflict with the teaching of Henry Ford, which some people regard as embodying the whole American gospel of efficiency in industry. In short, in the judgment of this critic, what was wrong with New England's staple trades was that they had allowed themselves to fall into ruts. Perhaps New England and Old England are not wholly dissimilar in this regard.

CHAPTER III

RESEARCH AND UNIVERSITY TEACHING : THEIR BEARING UPON PROSPERITY

AMONG the causes of American prosperity which can be imitated by other countries, the first place must be given to the immense facilities which are provided for research in every subject bearing upon industry, the strong practical belief of the leaders in all the more progressive industries that every problem can be solved by scientific methods of enquiry, and the readiness of the heads of great concerns to take infinite pains and incur vast outlay in order to carry out the improvements suggested by these enquiries. In this respect America is not merely far ahead of England, but ahead of the rest of the world, including Germany.

Trust in scientific research is indeed the keynote of the most successful American concerns. When, for example, Henry Ford formed the opinion that the cost of his cars could be reduced if the plate-glass for their wind-screens could be produced in a continuous stream, if the composition for artificial leather could be mechanically spread upon its linen base, and if the enamel could be sprayed upon the bodies of the cars, he issued orders to his research department (upon which he spends vast sums) that the mode of doing these things must be discovered ; no expenditure was grudged upon experiments ; and the required devices were duly found. No important undertaking is without

its laboratory or series of laboratories. The research station of the General Electric Company, for example, near Cleveland, is on a scale of magnificence which the best-endowed universities in this country might envy. There are ranges of great buildings, finely designed and planted in the midst of a spacious campus; the army of scholars engaged to direct these institutes are by no means required to limit themselves to the investigation of specific technical problems submitted to them, but are left with a free hand to carry on purely scientific investigations which may at first sight appear to have little direct bearing upon the immediate needs of the industry; and the result has been that they have made many discoveries of high importance and of immense commercial value.

The research carried on at the expense of manufacturing concerns is not by any means limited to the physical sciences which directly bear upon production. A vast deal of work is being done in psychology—not alone in the psychology of fatigue, but in more subtle matters. Thus in one factory, producing a variety of small products, I found two trained psychologists, who were retained for the purpose of testing the degree of initiative and responsibility required for different kinds of jobs in the factory. There are few well-organised concerns of any magnitude in which psychologists are not employed for various kinds of personnel work. Although there may be, and probably is, a good deal of bunkum about much of this work, the seriousness with which it is taken provides striking evidence of the eagerness of American industry to take advantage of all the help that science can give. Management is regarded as a science, a branch of engineering which has human beings as its material and which must understand its material if it is to make good

use of it. The influence of Taylor's work on scientific management has been profound, and it is being maintained and continued by a Taylor society which is supported by many leading men, Trade Unionists as well as employers. "Taylorism" has, indeed, been in some degree discredited by the fact that some employers have used it mainly as a means of driving their employees, but it is in many instances far more than this: it aims at discovering not only how effort can be economised and how work can be made most productive, but how it can be made healthy and interesting for the worker.

Not only the scientific facts about production, and the scientific principles of management, but the methods of marketing and salesmanship are the subjects of a vast amount of more or less scientific enquiry. Modern American business prides itself upon having abandoned tradition or rule-of-thumb for the guidance of science in marketing as much as upon anything else; and although there may be much that is absurd in the proceedings of such bodies as the Annual Conference of Teachers of Salesmanship and Advertising, and in the courses of the lavishly endowed Schools of Business which are springing up everywhere, even in Harvard, it would be a gross mistake to undervalue these activities. There is no doubt that these enquiries are helping to bring about a more scientific distribution which gives goods to the consumer at a much lower price than he would otherwise have to pay.

Not only individual employers, but employers' associations in whole industries, devote a large part of their funds to research. Still more striking, the most progressive of the Trade Unions have adopted the same method. Thus the Machinists (who correspond to our Engineers) have retained a highly

competent engineer to advise them as to the best means of organising the workshops in those railways and other concerns which are ready to undertake organised co-operation with them; while the Amalgamated Clothing Workers have not only retained an economic adviser of high standing, but employ skilled accountants to report on the conditions of firms with which they are in relations.

In addition to the research organisations maintained by individual concerns, employers' organisations and Trade Unions, there are many endowed research institutes of various types, maintained by private benefaction, among which the Institute of Economics at Washington deserves honourable mention. It has not only published a number of solid and valuable studies on particular industries; it is doing invaluable work in bringing home to intelligent Americans the true significance of international debts and international trade.

Behind all this there is the lavish outlay of the State Governments and of the Federal Government, all of which conceive it to be part of their duty to spend freely on this kind of work. The contribution of the Federal Government to the service of industry lies, indeed, largely in this sphere. Its research activities are in many respects more important than its administrative activities, just because its actual powers in the industrial sphere are so limited. I have already referred to the magnificent organisation of the Bureau of Mines, which has no executive power at all, and to the surveys and analyses carried out by the Department of Commerce, which has no power to enforce its recommendations. One of the most significant pieces of work carried out by the Department of Commerce under Mr. Hoover, in conjunction with many Employers' Associations, has been the establishment of the Bureau of Stan-

dards at Washington, whereby in a multitude of fields uniform types and measurements have been defined in place of the infinite variations that previously existed. The economy of time and effort thus attained can scarcely be over-valued.

In short, American industry has, over the greater part of its range, accepted the methods of science, and pinned its faith to research and enquiry, in a degree not equalled in any other modern country. And this of itself is enough to account for American prosperity, and to ensure its continuance. To what is it due?

I believe the main cause is to be found in the very wide diffusion of higher or university education. There are in the United States 588 universities and colleges (a college is a degree-giving body which does not provide professional or post-graduate training). In the agricultural State of Iowa alone, which has a population of 2,000,000, there are as many university institutions as in England, and the largest of these, the State University, has more students and is more lavishly equipped than either Oxford or Cambridge; while if a comparison were drawn with some of the more developed States, such as New York with its 61 universities and colleges, Pennsylvania (62), Illinois (56) or Ohio (50), we should suffer still more from the comparison. Of these 588 universities some thirty have a larger number of students than either Oxford or Cambridge, and fourteen or fifteen are bigger than Oxford and Cambridge put together. Many of these institutions (at least one in each State) are supported wholly or mainly out of public funds: in the last year \$154,000,000—over £30,000,000—were spent upon them out of the taxes. But besides this lavish expenditure of public funds, many of the greatest universities depend mainly upon endow-

ments. The endowments of the private universities are estimated at \$550,000,000, and they are increasing at an astonishing rate, encouraged by a system of supplementary grants from the Federal Government. Harvard with its \$70,000,000, Columbia with its \$60,000,000, Yale with its \$40,000,000, Chicago with its \$35,000,000, Leland Stanford with its \$28,000,000, and even Rochester with its \$24,000,000, enjoy an amplitude of resources for teaching and research with which no British university can compare.

Into these countless universities and colleges, whose number and resources increase every year, students are flocking, in growing multitudes and from all classes of the community. They number to-day about 750,000, which is at least twenty times as many as the students of this country, while the population is between twice and three times as great. To give their sons and daughters "a college education" has become a normal duty of all middle-class parents and the attainable ambition of the working classes: this ambition is, indeed, commonly adduced as one of the main motives for hard work among the workers of the United States. The number of students has indeed become so great that the problem of dealing with them is now a very difficult one. It is probably true that many students are being admitted to universities who are scarcely fit to use their opportunities, and it is certainly true that their vast numbers demand in some cases methods of mass-production which greatly diminish the value of their training. There is, of course, no outlet in the traditional "learned professions" for this vast number of students. But in America university training is no longer regarded as being specifically designed for such purposes. The graduate contentedly passes, not

merely into business, but into manual occupations, expecting to make his own way. The serious student stays on, in incredible numbers, to pursue professional courses or to receive training in the methods of research: post-graduate research students are numbered by thousands when in England they are numbered by tens.

It may be true that students of the highest quality do not obtain in America as good a training as they may (if they are lucky) get in England. Many Americans acknowledge this; and we, on our side, are apt to rest content with it. But it is also true in America, and it is emphatically not true here, that no boy or girl of ability need miss a university education, and that an extraordinarily high proportion of the younger generation pass under the influence of the universities.

The amazing diffusion of college education in the United States has two effects of profound importance for national efficiency. In the first place it has diffused universally a respect for knowledge, and a notion of what scientific and objective methods of enquiry really mean. Even if the crowds who pass through the universities get no more than this, they do get this, and they take into every walk of life a readiness to submit every puzzling problem to scientific investigation, and a knowledge that there are men who make it their business to do this kind of work. In the second place, the universities are producing a vast army of trained investigators. These men and women are, of course, not Newtons or Darwins. Their methods are often pedestrian and mechanical. But they know how to set about an investigation in the field in which they have been trained; and they know where to apply for guidance if their own abilities are insufficient. The vast research mechanism of American industry would

never have been instituted if the universities had not diffused very widely a belief in scientific method. It would be fruitless if the universities were not continually producing large numbers of young men and women capable of applying this method.

America has, during the last century, thus equipped herself to face an age in which science, and no longer rule-of-thumb, will be the guide to success. We have, in this respect, fallen behind. We are not only behind America, but behind all the more developed European countries. The first item in a soundly designed industrial policy must be to place research in its proper position. And for this purpose it is not merely necessary that the State should set up National Physical Laboratories and the like. It is not merely necessary that industrialists should be convinced of the wisdom of spending freely in this field. It is still more necessary that, by a great increase of the facilities for university training, the community as a whole should be taught to respect knowledge instead of regarding it as "unpractical"; and that a sufficient number of men should be produced capable of carrying on the work that has to be done. During the last generation we have made a start, by the foundation of a number of new universities. But we have only made a start; both the new universities and the old are seriously under-equipped. And there is no field in which an enlightened public policy, and an even lavish public expenditure, are more needed. The price of a couple of battleships would work wonders—and would contribute far more than the battleships to national strength.

There are two other respects in which the remarkable growth of college education in the United States has affected, or is affecting, the industrial problem. Lord Haldane was right when he

said that the deepest cause of social cleavage is the difference of educational background between classes. The American common-school system, with all its defects, and the wide diffusion of college education, with all its crudities, are perhaps the chief reasons for the comparative absence from America of that acute class-feeling which is to-day one of the main obstacles to progress in England. Again, I have found throughout the academic world even—and perhaps especially—in the Middle West, an eagerness to understand European problems, and a readiness to think internationally which must have its influence. And this is the more important because the industrial problem is to-day no longer national but international: a fact to which America is at present blinded by her prosperous self-sufficiency. In truth the spreading power of the academic world, despite the narrowness and crudities which it shares with the academic world of other countries, is the best hope of America to-day, and the greatest safeguard against that blatant materialism into which her somewhat gross prosperity might otherwise betray her.

CHAPTER IV

THE DISTRIBUTION OF OWNERSHIP

ONE of the most impressive features of American economic life, especially since the War, has been an astonishing expansion of saving and investment among the mass of the people, with the result that property, and in particular the ownership of shares in industrial capital, is distributed far more widely to-day than ever before, and far more widely in America than in any other country. This is the more remarkable because, before the War, it is probable that industrial ownership was quite as highly concentrated in America as in England—perhaps more highly. The change is so striking that it is commonly regarded, by all schools of American opinion, as a social portent of the highest significance, and by most as an exceedingly healthy one, making for stability, contentment and hopeful effort. One piquant summary of the change is the statement that the ownership of industry is passing “from Wall Street to Main Street”; “popular ownership of capital” is acclaimed as the true alternative to the “public ownership of capital” demanded by the Socialists; and enthusiasts assert that this development promises an end to the wasteful conflict of labour and capital, because it establishes a real community of interest between them, bringing within sight the day when every worker shall be a capitalist, as every capitalist (with few exceptions) is already in America a worker.

These claims for what is called "the new ownership" are unquestionably put too high. If it were possible to get exact figures as to the proportion of industrial capital held respectively by those who have more, and by those who have less, than (say) \$50,000, or £10,000, it would certainly be found that the preponderance of ownership still rests with the small rich class. The preponderance of power or control over industry indubitably still remains with them: indeed, as we shall see later, it can be argued that the change has actually increased the power of a small group of financier-controllers; and if "Wall Street" has eagerly welcomed "Main Street" as a part owner, it has at the same time gone far to divest mere ownership of any effective share of control. Nor can it be expected that the distribution of ownership will put an end to the eternal debate between "labour" and "capital" as to the fair division of the proceeds between them. That will continue, although it is likely to assume on both sides less acrimonious forms: "labour" is likely to take, and is in fact taking, a less irresponsible attitude when the members of the Unions have the practical knowledge of finance which ownership gives, and "capital" is likely to be more spontaneously generous in its dealings with employees who are also shareholders.

It is difficult to get any exact picture of the extent of the change. The latest adequate figures which I have seen extend only to the end of 1924, and the process has been going on more rapidly since that date, because the prosperity of the country has reached a higher pitch, and therefore the margin for saving and investment has been greatly increased. In 1925 Mr. Robert S. Binkerd worked out some incomplete but representative figures which show that between 1918 and 1925 the number of ordinary

shareholders (not holders of preference securities) in the railways, public utilities, packing companies, and twenty selected oil, steel and miscellaneous companies, rose from 2,537,105 to 5,051,499 ; that is to say, the number of ordinary shareholders in these concerns was practically doubled in seven years. Of this increase 338,760 (or more than one-seventh) represented holdings by employees, 864,754 (or nearly one-third) represented holdings by customers, and 1,310,880 (or more than one-half) represented holdings by the general public. These holdings are nearly all small in amount. If figures were available for bonds and other preferential securities, the increase would be still more remarkable, since these securities are especially favoured by small investors. Mr. Binkerd concluded that the increase in the number of stockholders in the kind of concerns with which he was dealing was at least 3,500,000 between 1918 and 1925 and of bondholders at least 2,500,000. The year 1918 is generally accepted as marking the beginning of the change because in that year the issue of Liberty Bonds by the Federal Government first introduced millions of people to the practice of buying securities with their savings.

Mr. Binkerd's figures cover, of course, only a small part of the ground. But it would be illegitimate to assume that a change on anything like this scale has been going on throughout the range of American industry. An examination of his figures shows that the growth of popular investment has been most marked in two classes of companies : (1) the " public utilities "—railway, tramway, gas, electric, telephone and telegraph companies—which are under a fairly strict public supervision, and which have also found it necessary to tap fresh sources of capital supply ; and (2) the great quasi-

monopolies—the meat-packers, the oil companies and the steel companies—which are exposed to constant public criticism, and want to enlist the support of their employees and customers. In the general field of industry there is no such remarkable change, though—under the influence of the new gospel of distributed ownership—many industrial concerns are encouraging their employees and customers to buy shares, and some are distributing shares to them without payment out of profits. Profit-sharing has, however, except in a few instances, contributed very little to the change, which has been mainly due to a growth in small investment, stimulated in every possible way by the directors of industry.

It is clear from this analysis that the sweeping assertion that “ownership has passed from Wall Street to Main Street” is very wide of the mark. But when all the necessary qualifications have been made, it is a highly remarkable change that is going on in the ownership of American industry. Mr. Hoover was justified in claiming that America has “a wider diffusion of ownership than any other nation in the world,” and there are probably few Americans of any class to-day who do not possess some “stake in the country,” some share, however modest, in the ownership of the capital equipment whereby the nation earns its livelihood.

This remarkable expansion of stock-holding and bond-holding has not involved any decrease in the older forms of popular saving. In the same period of seven years the number of savings-bank depositors rose from 10,631,586 to 38,867,994, while their deposits rose from \$11,115,790,000 to \$20,873,552,000. These savings in a large degree represented the source from which the investments came. Again, it is estimated that about 50,000,000

persons are covered by life insurance policies ; and the reserves of the insurance companies, which are really the property of these policy-holders, amount to \$10,400,000,000. The number of holders of insurance policies is nearly twice as great as the number who voted at the last presidential election. Clearly the American people have become, in a remarkable degree, a property-owning nation. The cleavage between the owning class and the working class is melting away ; and the disciples of Marx can no longer point to the existence of a " property-less proletariat," growing in numbers and misery, and depending for its livelihood solely upon the sale of its strength and skill, as necessitating a complete reconstruction of economic society.

Here, surely, is a social factor of immense significance. How far is it possible for this American development to be imitated by other countries ? In some degree the same process is already at work in England. The figures which Mr. Runciman has quoted show that there is a wider distribution of small ownership in England than most people realise. But these figures mainly relate to savings bank deposits, insurance funds and other long-established forms of popular saving. Except in the cotton trade (where employee holdings of shares or loan-stock are far more general than in the American cotton industry), there has been no great development of small investment in industrial concerns, such as has taken place in America. Nor would it be reasonable to expect any such rapid growth as America has witnessed ; and this for two reasons. In the first place, we have not, nor can we hope for, any such ample margins for saving and investment as America has enjoyed during the post-war period ; and in the second place, it would be wrong to encourage those who have small savings

to invest them in undertakings so insecure as many British industrial enterprises have been in recent years. Nevertheless, the encouragement of the small investor is of such paramount importance, both for the sake of social health and stability, and as a means of tapping fresh sources of capital for national development, that it is worth while to examine the methods whereby these remarkable results have been brought about in the United States.

They have not been due in any degree to State action, except in so far as the issue of Liberty Bonds (like our issue of Savings Certificates) taught people the habit of investment. In so far as an increase of popular investment was not an automatic result of prosperity, it has been due to the deliberate policy pursued on the one hand by many of the great trading companies (especially the "public utilities" and the trusts), and on the other hand by some of the Trade Unions. Let us consider these in turn ; and, first, the policy of the employers, and their reasons for adopting it. A few outstanding instances will best illustrate these.

Employers' Activities

The Bell Telephone System has perhaps gone farther than any other concern in distributing its stock both among employees and the general public. Its list of shareholders included in 1925 more than 630,000 persons, including 62,500 employees, whose holdings were valued at \$75,000,000, while 165,000 other employees were buying stock by instalments deducted from their pay to the amount of \$20,000,000 per annum. The Bell System consists of a parent company with a number of subsidiaries. The parent company, which holds the ordinary shares, increased the number of its stockholders from

65,000 in 1915 to 139,400 in 1920, and to 348,000 in 1924. This has been done partly by an arrangement with the banks, who help small purchasers introduced by telephone operators to buy stock in the market, and partly by direct sales on the instalment plan of shares bought on the market. The Company sells its new issues almost wholly to existing stockholders ; and it sells new issues of the preferred stock of its subsidiaries largely through its employees, who get a small commission. Immense issues are disposed of in this way, to people of all classes : among the subscribers to a recent issue were included 24,317 labourers and 10,700 clerks. This spread of ownership and interest is a matter of deliberate policy, carried out through a special organisation created for the purpose. It has turned the Bell Telephone System into a national institution, though not a State institution. The stability, popularity and advertising value which the system thus obtains can scarcely be over-valued.

Not long since many of the American railroads were almost wholly owned, so far as their ordinary stock was concerned, by individuals or small groups. Now the day of the Vanderbilts, the Jay Goulds and the Harrimans, who bought and sold whole railway-systems, is over, and the railway companies are finding that they have to appeal to a much wider range of investors. The New York Central has taken the lead in applying to its own employees for new capital. Two years ago it offered to them 35,000 shares at \$110 dollars a share—the market rate being about \$120. Employees were allowed only to take up shares in proportion to their pay ; and payment was to be made by instalments deducted from pay. The issue was nearly three times over-subscribed, and 68,000 shares, instead of the 35,000 offered, were allotted to 41,000 employees.

One out of every four employees subscribed. The Company has thus found a new source of capital, and has at the same time forged a new bond between itself and its employees. Other railway companies have striven to diffuse their stock as widely as possible, though not specifically among their employees. The number of railway shareholders increased by 320,000 between 1918 and 1925; but the increase was almost wholly in ten out of the four hundred lines—that is to say, it was limited to those companies which were deliberately encouraging diffused ownership.

Even more remarkable has been the diffusion of ownership in the gas, electric light and power companies, which not long ago were mainly controlled by a few men of great wealth. They carry on a persistent campaign to encourage the acquisition of shares by their customers and employees. Their motives are, of course, not disinterested: they want to tap new sources of capital, and they want to forestall or temper criticism. But whatever the motive, the result has been that in a remarkable degree these public utilities are now owned by those whom they serve and by those who serve them. The Consolidated Gas Company of New York may be taken as an instance. In 1922 it issued \$15,000,000 participating preferred stock exclusively for sale to customers and employees, in limited amounts and subject to the condition that shares of this issue should be transferable only to other customers or employees. 11,345 employees (over 43 per cent. of the total number) and 25,844 customers took up shares. Many of the electric lighting companies have joined forces to establish the National Electric Light Association, part of whose duty is the sale of shares to customers. Down to 1925 it had sold over 5,000,000 shares to 650,000

customers, and the lists of purchasers, which are issued with pride, show how widely these holdings are distributed. One such list enumerates 415 clerks, 42 carpenters, 18 janitors, 33 druggists, 113 stenographers and 28 waiters. Tramways and street-railways are in many cases equally zealous in the distribution of their stock. One of these, the Philadelphia Rapid Transit Company, has achieved such remarkable results by these means that I shall discuss it more fully in a later chapter, along with other experiments in the direction of workers' control.

The instances already set forth are all drawn from the group of public utility companies, in which the "drive" towards diffused popular ownership has been most marked. But the same policy has been adopted by some of the great trusts, once the objects of bitter criticism, but now of praise and pride.

Thus shares have been acquired by 70 per cent. of the workers in the International Harvester Company, by 90 per cent. of the workers in the Firestone Tire and Rubber Company, by nearly half of the employees of Swift and Company, the great meat-canning firm, and by practically every employee in the Proctor and Gamble (Soap) Company. The Standard Oil Company, the General Electric Company, the Eastman Kodak Company, the National Biscuit Company, are all instances of great concerns of such magnitude that they approximate to trusts, in which very large blocks of shares have been successfully sold to employees, usually on the instalment plan. The Iron and Steel Companies have shown special enthusiasm in the encouragement of employee ownership: five of them had in 1925 no fewer than 87,000 employee stockholders. The United States Steel Corporation in particular, which is one of the most gigantic manufacturing organisations in the world, has been, ever

since its establishment in 1901, a pioneer in this respect : since 1903 it has offered, every year, large blocks of stock, purchased in the open market, for subscription by its employees, who are allowed to pay for their purchases in instalments spread over three years, and are given special bonuses in addition to their regular dividends.

The motive of this policy is obvious enough. The companies want to avert industrial unrest by making their workers feel concern for the maintenance of dividends as well as of wages. They have been very successful. When a great steel strike was launched in 1919, it ended in complete failure ; and it is pretty clear that the chief cause of failure lay in the fact that the workers were no longer single-minded in the conflict. But whatever the motive, the main results, in these cases as in the public utilities, are unquestionably good. The wage-earner and the small man are regaining a sense of ownership in the sources of wealth ; and the direct and indirect consequences of this change are bound to be immense.

The movement has not yet taken so firm a hold upon the rest of competitive industry as it has in the public utilities and the giant corporations. But it is growing everywhere. Hundreds of firms of every type are establishing schemes to facilitate employee or customer-ownership, sometimes issuing new blocks of shares specially to one or both of these classes, sometimes purchasing shares in the market which are sold on the instalment plan to employees, the payment being taken in the form of an agreed deduction from wages. This method is not without its drawbacks, especially in cases where the shares are apt to fluctuate in value. When I left America a case was pending in which a group of employees were claiming exemption from the further payment

of instalments on shares whose market-value had declined below the sum which they had already paid.

Some critics of the system contend that the wholesale enrolment of workers as shareholders is unfair to the workers, for two reasons : first because it hampers them in wage-negotiations ; still more because it persuades them to put all their eggs into one basket. When a big concern falls upon bad times, it is unfortunate that its employees should lose the return upon their savings at the very moment when they may also have to lose their wages. Accordingly there are many firms, great and small, which discourage investment in their own securities by employees, but provide facilities for helping them to purchase other securities. Thus the New York Edison Company has a Savings and Loan Association for its employees, who are encouraged to authorise the deduction of a regular proportion of their pay, and helped to invest the resultant savings in the purchase of houses or bonds. In a single week in 1924 these deductions amounted to nearly \$18,000 dollars ; and all this went, under competent guidance, into various forms of investment. One able and generous employer with whom I discussed the question contended that every firm ought to have a scheme of this kind, but that the employee should always be discouraged from investing his savings in the company. The only form of employee shareholding which he regarded as legitimate was the distribution of shares out of surplus profits. This is a method which is not widely used in America. There are some outstanding examples of it, indeed, such as the Dennison scheme and the Nash scheme. But the significance of these lies in the use of profit-sharing as a means of giving to the employees an effective share of control ; and in that connection I shall have more to say about them later.

Trade Union Banking and Finance

The systematic endeavours of trading companies to diffuse as widely as possible the ownership of their stock have been impressive enough. But they are less significant than the remarkable departure which has been taken by some of the Trade Unions—a departure which marks the beginning of a new era in Trade Union policy. Since 1920 they have been extraordinarily active in the establishment of Labour Banks and investment companies; they have entered the field of high finance with striking success; and they have distributed among their members very large amounts of bonds and other securities. In these ways they are making a very important contribution to the diffusion of ownership.

What are the reasons for this new departure, and why did it begin in 1920? That was, in America, a year of bad trade. Unemployment had reached colossal dimensions—greater, both absolutely and relatively, than we have seen in England: the number of unemployed in 1920 was estimated at more than 5,000,000. Factories were closing down on all hands. There was a general “buyers’ strike.” Drastic reductions of wages from the high war levels were being demanded by employers in almost every trade, for the high-wage theory had not yet been generally adopted. At the same time a violent campaign against Trade Unionism was launched. The Trade Unions found themselves fighting not merely for the maintenance of standards of life, but for their own existence. In this hysterical struggle the employer-class was so deeply engaged that even the banks took sides. Many of them refused advances to firms which continued to pay Union rates; some of them even announced that they would give no credit to any concern which did not adopt the Open Shop. This action naturally

aroused intense bitterness. Labour leaders began to reflect that the funds which the banks were thus using for partisan purposes came in part from Labour sources; for the very large funds of the Trade Unions were commonly kept on deposit in the banks, and the private deposits of working men amounted in total to an immense sum. They began to ask themselves why Labour should not have its own banks, and use its own resources to support friendly firms or to finance Labour enterprises. The idea came as a sort of revelation. It seemed to provide a new weapon. This unquestionably formed one of the main motives for the new departures. This was why these novel enterprises were started at a moment of deep depression, when otherwise nobody would have dreamed of launching them. The first Labour Bank was acquired by the Machinists' Union (corresponding to our Engineering Union) in July 1920, when it was engaged in a desperate conflict with the employers in the engineering trade. The second was started by the Brotherhood of Locomotive Engineers in November of the same year, when it was looking forward to a desperate conflict with the railway companies which was only narrowly averted in 1921.

At first the funds of the early Labour Banks were used in part for advances to concerns which it was desirable to keep going as part of the war against the employers. Thus the Machinists, through their bank, financed a ship-repairing firm at Norfolk which kept open at Union rates when all the other firms had locked out their men and the ordinary banks would give no credit. In the end this concern went bankrupt, and the money advanced to it was lost; but the Union calculated that the loss was only a fraction of what it would have had to disburse in strike-pay to the men who were main-

tained in employment. But this way of using bank resources was not long continued: partly because the spell of bad trade soon passed away, and in the following boom the employers began to adopt the high-wage theory; but still more because, as they were initiated to the mysteries of banking by the experts whom they engaged, the Trade Unions quickly swung to an extremely cautious and conservative attitude in the matter of advances, being eager to secure a reputation for financial soundness. It is significant that no Labour Bank has ever given an advance to a Trade Union for the purposes of a strike, though ordinary banks have done so. When the milk-drivers of Minneapolis organised a creamery of their own with Trade Union funds, and needed an advance to build a new factory for their expanding business, the Minneapolis Labour Bank refused to help them, but they had no difficulty in getting an advance from an ordinary bank. Thus, although the scheme of Labour Banks was devised for the purpose of using Labour's money as a weapon in the struggle against Capital, this notion soon disappeared when it was tested by the necessities of practical banking. The Trade Unions learned their lesson quickly and thoroughly. In every Labour Bank which I visited I was told the same thing: "We carry on our business on strict banking principles: we do not allow ourselves to be influenced by sentimental considerations."

Since these special motives have disappeared, or at any rate fallen very much into the background, it may be asked why Labour Banks should be founded at all, and what special functions they perform. In most respects they closely resemble ordinary deposit banks. They accept deposits from anybody, and make advances to any sound concern. They will not, of course, make advances to a firm

which is at war with the Trade Unions ; but they are not likely to be asked to do so. They naturally give advances to concerns which are friendly to Labour, but not unless the transaction is in any case sound. There are, however, three ways in which the Labour Banks have followed a distinctive policy. In the first place, they pay, as a rule, only a fixed rate of interest to their shareholders. The balance of their profits (after provision for reserves) is distributed in bonuses to their depositors, on the co-operative principle. This has made them very attractive to small depositors, who have resorted to them in very large numbers. The small man is the more encouraged to open a bank account by the fact that there is in America no stamp-duty on cheques, and by the further fact that wages are very widely paid in cheques. There is no doubt that the growth of the Labour Banks has led to an immense expansion of the banking-habit in the American working class, and this is in itself an immense stimulus to saving. In the second place, the Labour Banks lay themselves out to make small advances on personal credit to people of small means : they have for this purpose a real safeguard in that they can often get knowledge of the applicant from his Trade Union. They thus render a very great service, which in England is left to the loan societies and the money-lenders. In the third place they often subscribe for large blocks of bond issues or other securities suitable for the small investor, which they subsequently distribute to their customers and to the members of the Trade Unions which control them. In this way they have done a vast deal to distribute ownership more widely ; and their work here is distinct from, and supplementary to, that of the trading companies which are selling stock to their employees. The latter mostly use ordinary

stock for this purpose, because they want their employees to be sensible of the variations of prosperity and the risks that capital must face. The Labour Banks deal mainly in preferred stocks or bonds, which offer security at a fixed rate of interest.

During the six years since the movement started the growth of the Labour Banks has been extraordinary. There are now nearly forty of them, and at the end of 1924 their total funds amounted to more than \$175,000,000. The greatest of them is the Brotherhood Bank at Cleveland, Ohio, organised by the Brotherhood of Locomotive Engineers. Beginning in the corner of a restaurant in 1920, it now occupies a palatial building in the centre of the city, and has funds amounting to \$25,000,000. It is only the first of more than a dozen banks controlled by the Locomotive Engineers, either alone or in conjunction with the other Railway Brotherhoods. In each case the controlling Union holds 51 per cent. of the shares; the remainder are distributed very widely, mainly among the members of the Unions. This in itself represents a substantial diffusion of property-owning. The Amalgamated Clothing Workers have two strong banks, one in New York, the other in Chicago, and the Machinists have a bank at Washington. Most of the remainder are controlled by various composite Labour groups.

The new financial activities of the greater Trade Unions are by no means limited to banking. They are forming Investment Trust Companies, the shares in which are held entirely either by the Trade Unions or by their members. In this kind of activity, as in banking, the Locomotive Engineers have taken the lead; and in 1925 they already controlled eight companies of this type, with a capital of more than \$20,000,000. They realise that, for the small investor who does not understand the mysteries of the

stock-market, but wants security with a good return, a sound Investment Trust is a godsend : his money is handled with the best advice, and his risks are wisely distributed. The formation of Investment Trusts for their members would be an admirable enterprise for Trade Unions, here as in America.

But this is far from the end of the financial enterprises undertaken by the Brotherhood of Locomotive Engineers. For a time (until they saw a chance of selling it at a handsome profit) they owned one of the principal office-buildings in New York ; and the engine-driver in his overalls was part-landlord of some of the greatest financial houses in the world. They have bought and worked a considerable coal-area, with six mines, and are reputed to have been as stiff towards the miners as the average "capitalist" mine-owner. Their most recent enterprise is the purchase of a large area of land in Florida, on which they are erecting a seaside resort, with huge marble hotels and all the lavish luxuries of a Pleasure City.

In short, the Locomotive Engineers are giving a very impressive demonstration of the part which Trade Unions can play in financial and industrial enterprise if they choose to make use of their own huge funds, instead of leaving them to be handled by the banks. Their president is a financial magnate, not only in virtue of the great interests which he directly controls, but because he can underwrite and dispose of large issues of bonds at any time.

All the immense undertakings which have been launched or acquired by this remarkable Trade Union during the last six years are bound together by an elaborate system of majority-holdings and interlocking directorates, for all the world like a big Capitalist combine. When I visited the headquarters of the Brotherhood at Cleveland (where

I was received with the most charming courtesy), I felt that I was at the centre of a new kind of financial organisation, the outcome of which was unpredictable, but which certainly represented a very impressive new departure in the development of Trade Unionism. One episode in particular impressed me with the reality of the change. One of the senior officers showed me with some pride an elaborate table which he had worked out to exhibit the interlocking directorates of the railway companies. But a younger man who was present brushed it impatiently aside. "We got that out a few years ago," he said, "when we were thinking of attacking the railroads on that subject. But since then our own experience has made us change our view on interlocking directorates!"

It is impossible to predict what will be the outcome of this new development. It certainly involves a very striking change in the attitude of the American Trade Unions towards productive enterprise, an attitude wholly incompatible with the idea of war against "Capitalism." For the Trade Unions are showing that they fully accept the ideal of a society based upon private ownership, and are doing more than all the selling-drives of the companies to diffuse among the mass of the people a sense that they can acquire a direct share in the ownership of the nation's capital equipment.

If one were to listen to the pæans of the panegyrists of the new movement, one would conclude that already, in these few years, a complete transformation had been brought about, and the whole American people had become property-owners. That is by no means yet the case: the movement is as yet only in its early stages, and it cannot yet be said that a revolution has been effected in the ownership

of property. This conclusion is borne out by an enquiry recently made by the Federal Trade Commission, which set itself to discover, from an examination of the probate records of twenty-five counties of different types in various parts of the country, what were the amounts of property left at death, and how this property was distributed. In these counties, during the period covered, 184,978 persons died. But 114,466 left so little that their estates did not even go to probate. Of the remainder, 11 per cent. left less than \$500, 10 per cent. left between \$500 and \$1,000, 20 per cent. left between \$1,000 and \$2,500, 18 per cent. between \$2,500 and \$5,000, 15 per cent. between \$5,000 and \$10,000, 15 per cent. between \$10,000 and \$25,000, $5\frac{1}{2}$ per cent. between \$25,000 and \$50,000, and the remaining $5\frac{1}{2}$ per cent. left more than \$50,000. These figures show that America has still a long way to go before her people can be described as a nation of property-owners. By far the greater part of American capital still belongs to a small class of very rich men: in the selected cases dealt with by the Federal Trade Commission, 59 per cent. of the total wealth surveyed was owned by 1 per cent. of the deceased. This is a worse proportion than is shown by a similar analysis in England, where 63 per cent. of the wealth left at death belonged to 2 per cent. of the persons dying. But things are getting better in America, thanks to the process of diffusion which we have been studying. It appears that while in 1912 estates of more than \$100,000 formed $52\frac{1}{2}$ per cent. of the total, in 1923 they formed less than 46 per cent. This change of $6\frac{1}{2}$ per cent. is probably the measure of the effect produced by the movement for wider distribution in the course of a very few years. It is a substantial movement in the right direction.

CHAPTER V

OWNERSHIP AND CONTROL

I HAVE read somewhere—I wish I could lay my hand upon it—a speech by Mr. Donald Richberg, who is a Chicago lawyer with a pretty turn of sardonic realism, on the motives by which he supposes the controllers of big concerns to be actuated when they arrange for wholesale shareholding by customers and employees. He imagines the president of a gas company unburdening his soul to the wife of his bosom about the trouble he has with customers who want cheaper gas and work-people who want higher wages, while neither of them will remember the demands of the shareholders. “Why don’t you give them some shares?” says the wife innocently. “A great idea!” cries the president, and proceeds to organise a high-toned campaign for popular ownership by customers and employees. Six months later he is rubbing his hands with glee. All his troubles are at an end. Customers and work-people alike are too anxious for good dividends to give trouble about the price of gas or the rate of wages. “But won’t they give trouble as shareholders now, and want bigger dividends?” says the faithful wife. “Trust me for that,” says the president. “Shareholders don’t give any trouble. They’ve all got stock *without voting rights*.” And in actual fact, the new popular owners in America are very often divested of voting rights, and have no control at all, even in theory, over the affairs of the companies in which they have become shareholders.

Even if they have the fullest rights in theory, they will in practice be impotent. The company may be registered in Maine, and hold its formal annual meeting to "elect" its directors at a hotel in a little Maine town, though it carries on its business in Michigan or Minnesota, where all its customers and employees live. Even if they are willing to make the journey of a thousand miles, which of course they do not dream of doing, the shareholders can do nothing; for they will find that 51 per cent. of the voting stock is controlled by the directors, or perhaps by a "holding company" registered in Arizona. And they have no facts on which to form a judgment; for the balance-sheet presented by the directors may consist only of half a dozen bald figures, which will give no means of judging as to the condition of the company. The theoretical controlling power of the shareholders (unless they belong to the inner ring) amounts to nothing. They are absolutely in the hands of the directors, whom they must blindly trust.

This impotence of the shareholder to affect the fortunes of the company in which his money is invested, and of which in the eye of the law he is part-master, has latterly attracted a good deal of discussion in America; and Professor W. Z. Ripley of Harvard has been writing pungent articles about it in the *Atlantic Monthly* and elsewhere, which he has since expanded into a book—*Main Street and Wall Street*. Professor Ripley denounces the extraordinary diversity of the company laws of the forty-eight States, and the strange laxity of some of them—especially of those States which, like Maine, Delaware and Arizona, compete for the registration fees of companies. He shows how some of these laws leave the shareholder absolutely at the mercy of the directors, and how readily they

lend themselves to fraud ; and he holds up to admiration the uniformity of English company law and the greater safeguards which it affords. His exposure of the anomalies of American company law has had a surprising effect : the New York Stock Exchange has announced that it will not give quotations to companies which do not fulfil certain reasonable conditions. Probably the reason for this is just the fact that shareholding is now much more widely diffused than it used to be. When the affairs of companies were primarily the concern of big financiers who were quite capable of looking after themselves, these dangerous practices might not seem to matter. But now that the millions are taking to shareholding, and great concerns are looking to them for funds, it will not do to let them be frightened away. Possibly one of the good results of the diffusion of ownership will be a purification of American company law ; but the labour of getting all the forty-eight States into line, and persuading some of them to abandon a rich source of profit, will be a labour of Hercules, comparable with that of the Augean stables.

And in truth, as Professor Ripley recognises, things would not be greatly better, so far as the effectiveness of shareholder-control is concerned, even if the English Companies Acts, as they now stand, were adopted by every one of the States. For in modern industry the ultimate control of the shareholders becomes more and more of a myth. It is not capital that controls industry, but management or direction, wielding the powers which the law gives to capital. And this becomes more clear the more the number of shareholders grows. How can the 348,000 shareholders of the American Telegraph and Telephone Company, scattered as they are over half a continent, possibly control the

affairs of the company? Imagine a shareholders' meeting attended by them all! And if they could meet, what value would the judgment of most of them possess? We are witnessing, not in America alone, but in all industrial countries, a new stage in the transfer of responsibility for industrial work. First responsibility was divorced from manual work, when the tools of production became too costly to be owned by the man who used them. Then it was divorced, in a large degree, from management, when the manager became a salaried servant. Now it is being divorced from the ownership of capital. Into whose hands has it fallen, or will it fall? That is one of the most fascinating questions which modern industrial development presents.

At present the real power seems to have fallen, in the great majority of cases, to one or other of two groups. Very often the original promoters reserve to themselves a clear majority of the voting-shares, and with this an absolute control over the appointment of directors and the policy of the company. The bulk of the company's capital may consist—and in America does often consist, more often than in England—of stock or shares without voting rights: bonds or debentures, preferred shares, or even non-voting ordinary shares marked off in a special class. Often it is put forward as a recommendation that the men who built up the company's prosperity will continue to control it. At first this may be an advantage; but it is apt to cease to be an advantage when their heirs inherit their control without inheriting their brains; and many a great concern owes its decline to this cause.

In other cases, which are becoming more frequent, the control falls to banking or financial interests which have reorganised the company and provided it with fresh capital—on terms. The bank exercises a

triple control over the trading company : it can give or refuse advances, out of the vast funds placed at its disposal by depositors ; it can float issues because of the confidence it commands with the public—charging for this service a price which is often paid in voting-shares ; and it can, with its own funds, or with the funds of insurance and other corporations under its control, buy up great blocks of shares with controlling rights. These practices are much more widespread in America than here, and banker-finance is obtaining every year a stronger hold over American industry. The men who wield this immense power do not need to invest much or any of their own personal fortunes in the enterprises they control : they use the huge sums which the public places in their hands from day to day. The nominees whom they put in to control the concerns under their orders, as directors, may not possess, and very often do not possess, any experience or knowledge of the business. In some cases, members of great banking concerns hold scores of directorships, and it is not to be credited that they have real knowledge of them all. Their concern is not with the process of manufacture, but with the manipulation of finance ; and their attention is concentrated, with single-minded devotion, upon the balance-sheet. There is a strange superstition that a financier is capable of managing any kind of business ; it resembles the superstition that a teacher who has taken a course of pædagogy is capable of teaching any subject, whether he has studied it or not.

The growth of financier-control is one of the most striking features of modern industry in all countries, but notably in America. When it is used to influence national policy—to force a reduction of wages or a restriction of output because the financiers have come to the conclusion that this is

desirable, or to declare a general war against Trade Unionism, such as was threatened in America in 1920 and 1921—this power, wielded secretly by a small group of men, may become dangerous.

There is a growing revolt against it, of which Professor Ripley has made himself, in some degree, the exponent. The revolt is not confined to academic theorists. One of its loudest leaders is Henry Ford, who has always prided himself upon his independence of the bankers, and justifies his sole-ownership of his concern by the necessity of maintaining this independence. It is indeed pretty certain that banker-control would never have permitted the daring policy of expansion and price-reduction which was the secret of his success, or allowed all the profits to be ploughed back into the business, as Mr. Ford ploughed them back during the years of his rapid progress. In Mr. Ford's view, banker-control is the enemy of progress; it is the tyrant and oppressor from which democracy must next learn how to free itself. The only tyranny Mr. Ford can tolerate is the tyranny of the creative business man.

The diatribes of Mr. Ford against banker-control are echoed, *sotto voce*, by a great many manufacturers who are less independent than he. They are echoed also by the more intelligent leaders of organised Labour, who learnt their lesson in 1920-1921, and since then have regarded the banker rather than the manufacturer as their most dangerous foe. The creation of the Labour Banks is a part of their answer to the problem; Labour is to obtain a share in this formidable financial power. But there is no reason for believing that the directors of a Labour Bank will use the financial lever more competently than the directors of other banks, in dealing with enterprises of which neither of them have special

knowledge. Another Labour proposal is a revision of banking-law, giving to the State the power to exercise a stricter supervision over the way in which the savings of the nation are used by the bankers to whom they are entrusted.

Banker-control, and indeed the control exercised in other cases by groups of promoters, are at once evidences and consequences of the divorce of responsibility from the ownership of capital. And this divorce is in itself the all but inevitable result of the enlarging scale of industry and of the growing number of investors. The process is going on more rapidly in America than in England. Under the laws of some of the States the deprivation of even ordinary shareholders of even the formal right to vote has been carried much further than would be possible in this country. But we have gone pretty far. We generally disfranchise all holders of debentures and preference shares, except when the company in which they have invested is actually on the rocks; and debenture and preference-shareholders provide more than half of the capital in British industry. We give absolute power to 51 per cent. of the voting shares, and therefore disfranchise the other 49 per cent. And latterly, by the device of "holding companies," we allow controls to be "pyramided" in such a way that one man, or a small group, owning a relatively small amount of capital, may acquire an all but absolute control over capital interests ten or twenty times as great as his or their own holdings. Lord Rothermere's control of the *Daily Mail* group of newspapers is an excellent illustration of this method of acquiring immense and irresponsible power with funds provided by other people.

There can be no more misleading statement than that industry is controlled by the owners of the

capital invested in it. This was once true, but it is no longer true. The vast majority of these owners have no more effective control over the use made of their property than the Man in the Moon.

Professor Ripley, and the large body of American opinion for which he speaks, are much concerned to arrest this process and to restore some real degree of authority to the shareholder. Professor Ripley seems to think that, if this could be done, it would afford the best means of limiting or qualifying the dangerous development of banker- or financier-control. He seems also to feel that the democratising of ownership, of which America is so proud, will not amount to much unless it is followed by a democratising of control. He (and other critics of the existing regime) have suggested various methods of achieving this end. One is that the law regarding companies should be amended so as to forbid the disfranchisement of ordinary shareholders, and even of preference shareholders. Another is that the dictatorship of the 51 per cent. holding, which is the handle whereby special interests grasp control, should be got rid of by giving a cumulative vote to shareholders in the election of directors: this would mean that a minority could (in theory) appoint some of the directors. If these two proposals, which are not incompatible with one another, could be carried into law in each of the forty-eight States, it would undoubtedly be more difficult for a small group of men to acquire a dictatorship over a great concern. But these proposals do not even face the difficulty of securing intelligent common action, for example, by the 348,000 scattered shareholders of the American Telephone and Telegraph Company. Yet another proposal is that the shareholders should appoint a permanent committee to represent their interests and keep watch over the directors. But how is

the vast, scattered, uninformed mob to make an independent choice? They will give their proxies to the directors, or to some other self-appointed person.

Professor Ripley himself seems indeed to have some misgivings about the efficacy of these devices; for he pins his faith chiefly to publicity. Companies must be compelled to give full, clear and intelligible statements as to their financial position and transactions. He is right: publicity is the best safeguard. But who is to enforce it? Only the State can do so—by legislation. The State can do so easily in England, where there is one legislature. But in America there are forty-eight legislatures, with sovereign powers in this sphere. And those of the forty-eight which do not adopt this method know that they will reap a rich harvest of registration fees from the company-promoters who will flock to them for charters of incorporation.

Shareholder-control over companies of the vast modern scale is in truth inoperative, except in so far as the directors are checked by the fear of being unable to raise fresh capital if they mismanage their business. The only effective safeguards against mismanagement are the safeguards which the State can alone provide through an efficient system of company law; and in all countries—in America most of all, but in Britain not least of all—a thorough-going revision of company law is needed to meet the conditions of this new age of large-scale operations and numerous and widely scattered bodies of shareholders. But the safeguards which can be provided by law cannot go very far. They cannot protect either shareholders or the community against stupidity and incompetence, or against the fatty degeneration which is apt to overtake concerns that are headed by groups of guinea-pig directors with sons and nephews to provide for.

Where is the safeguard here ? America (which is deprived by her glorious constitution of any chance of using the safeguards of law effectually) has found a means here, as, in a different way, Germany has also done. She has glorified the profession of management, throwing supreme responsibility upon the general manager, and, for the most part, either turning the directors into whole-time salaried officers, or reducing them to a mere advisory body. That method will work well, so long as the general manager is appointed by merit, and by merit alone. But what assurance can there be that Boards of Directors, appointed as Boards of Directors often are appointed, will choose the right man ?

Limited Liability Companies are among the most powerful social forces of our time. They wield great powers, conferred upon them by the State, which endows them with a fictitious personality and the right to sue and be sued in the courts as if they were persons, and yet at the same time exempts their members from liability for their actions beyond the amount of their investment. The bigger among these bodies (and some of them have reached a gigantic size) have at their mercy the livelihood and well-being of hundreds of thousands of men and women. To find some means of checking and controlling the almost irresponsible directors of these great bodies, not merely when they have brought their concerns to the verge of ruin, but in time to prevent such a catastrophe, is a real and difficult problem. Some have hoped that a wide diffusion of ownership would meet this need. American experience proves that this, by itself, is of no avail. America to-day is questing after a solution of the problem. We also ought to be questing.

CHAPTER VI

HIGH WAGES AND HIGH CONSUMPTION

AMERICA is regarded as the paradise of the working-man ; and if very high wages, and the ability to buy his own motor-car, are the criteria of a workman's paradise, it deserves the name. Nowhere in the world, and at no period of human history, have manual workers been able to earn such high pay, or to command so great a variety of material comforts and enjoyments, as in America to-day. This is the feature of American life which most stirs the envy of other countries.

There are, of course, counterbalancing factors. One of them is the insecurity of employment. The "labour turnover" in most industries is extraordinarily high. With few exceptions employers take no pains to stabilise employment, and feel no scruple about dismissing their work-people. It is one of the accepted criteria of efficiency that production should be adjusted very closely to demand, so that there may be no waste on unsold stock or unused materials ; and this involves constant sudden reductions or enlargements of staff.

There is a widespread idea in England that unemployment is almost non-existent in America. Nothing could be further from the truth. Fewer men may suffer from long-continued unemployment than in England ; but an enormous number of workers are constantly passing into and out of work. Exact figures are unobtainable, because there is no

system of registration such as we have. But the Industrial Conference Board—a very competent body of the highest standing—estimates that the average number of unemployed, even in a period of high prosperity, is about 1,500,000—the same number as in a period of exceptionally bad trade in England. In Detroit, the centre of the great motor-industry, the Employers' Association estimates that at any given moment 15 per cent. of the workers in the motor-trade will be unemployed. In England we regard 15 per cent. as an alarmingly high proportion for any trade. But American methods demand a constant margin of available labour, in order that, week by week, men may be taken on or turned off as required.

No provision of any sort is made, save by a few very exceptional firms, to support the worker when he is out of a job, whether because he is not needed at the moment or because he is unable to work owing to sickness or old age. Not only is there nothing corresponding to our system of social insurance, but there is not even a regular system of poor-law relief. The worker is expected to make his own provision against these contingencies. This constitutes a real and substantial deduction from the value of his wages. The social insurance benefits available to English workers are worth a great deal more than the premiums paid for them.

But when all allowances of this kind are made, American wages are extraordinarily high. They are high mainly because, in a country which is developing very rapidly, restricted immigration has brought about a shortage of skilled labour ; while the consequent rapid development of labour-saving devices has multiplied very greatly the productive power of each labour unit.

High wages mean high spending-power, and

therefore greatly increased consumption, which in its turn is good for trade. The amazing prosperity of the last five years has manifestly been due mainly to the enhanced purchasing power of the American people. The demonstration of this fact has brought about a remarkable change of attitude on the part of American business men. They have abandoned the notion that they would profit most from low wages and high prices. They realise that it is the people who draw the low wages who have to pay the high prices. And they have adopted the contrary view—that the secret of prosperity is to pay the highest practicable wages, to produce goods at the lowest possible prices, and to trust for their profits to mass-sales ; for which purpose high consumption must be encouraged to the utmost. In other words, American business men have become disciples of Mr. J. A. Hobson, who has long been preaching that the cause of bad trade is under-consumption, but has generally been regarded by English economists as a heretic.

It would be a mistake to assume that this doctrine has been universally or whole-heartedly adopted. In many trades, perhaps in most, wages are still kept at the lowest figure at which labour can be hired, and they are high only because labour is scarce and exacting. The doctrine probably would not stand the strain of a prolonged period of bad trade ; and it would be rash to assume that the workers no longer need their defensive organisations for the protection of their standard of life. But undoubtedly the American employer is less jealous of high wages, and more ready to advance them voluntarily, than his English congener. The level of wages a concern can afford to pay is beginning to be regarded as one of the tests of its efficiency ; and this is an attitude which is bound to have a

deep psychological effect upon the relations between employers and employed.

The chief apostle of the high-wage and high-consumption theory is Mr. Henry Ford, who is commonly regarded on both sides of the Atlantic as the supreme exponent of modern American business methods. Mr. Ford is responsible for the remarkable aphorism that every industry should pay wages high enough to enable its employees to buy its products. How he would apply this principle to the manufacture of pins or matches at one end of the scale, or at the other to the manufacture of iron bridges or Atlantic liners, one does not presume to guess ; but the aphorism is an amusing illustration of Mr. Ford's fondness for basing large generalisations upon the practice of his own factory. It is known that Mr. Ford expects his employees to buy Ford cars, and it is popularly believed that men have been " fired " for failing to do so.

In his books Mr. Ford lays down the principles of his business policy as if they were inspired wholly by deep thought about economic principles and a profound philanthropy. But it is perhaps permissible to suspect that his high-wage policy may have been in some degree influenced by other considerations. By offering a minimum wage of \$6 a day, which is more than can be earned by the unskilled worker in any other way, he certainly gains some very substantial advantages. He is assured of a big waiting list. He can " fire " any man at a moment's notice, because his place can be instantly filled. He can completely disregard Trade Union restrictions. He can install the most elaborate labour-saving machinery without resistance. He can " drive " his workers mercilessly : they know they will be " fired " if they drop behind, and they know that hundreds are waiting for their

well-paid jobs. For Mr. Ford, therefore, high wages are the means to a great saving of labour-costs. They would cease to be so if everybody else paid at the same rate.

It is significant that Mr. Ford does not pay piece-work rates, except for a few key positions which set the pace for the rest. All the rest of his staff are engaged, as mere slaves of the machine, in doing their endless, monotonous, repetitive, unexact tasks as the unresting "conveyer" passes them. It is also significant that the labour turnover at the Ford works is extremely high, even for America. However high the wage, most people cannot stand the monotonous strain for long. Hence, when the serious slump in the demand for Ford cars began two years ago, it was not necessary to advertise it by dismissing men in large numbers; all that was needed was to stop taking on new hands. Mr. Ford also announced, with a flourish of trumpets, that he was introducing the five-day week. He put the reason for this new departure on the highest grounds of social well-being. But his decision may possibly have been assisted by the fact that, as he pays by the day, a five-day week would mean a reduction of output and of wages—unless, indeed, the daily rates were increased. They have only been increased, thus far, in the case of key-workers paid by the piece, in order that they might intensify the pace. Mr. Ford's wage-policy is not wholly inspired by altruistic motives.

But why should it be? The real significance of the high wages of America is that they have proved to be economically advantageous to the employer-class as well as to the community.

The complement of high wages is high consumption: that is their justification in the eyes of the manufacturer. It is a corollary of the high-wage

and high-consumption theory that to spend lavishly is the mark of a good citizen. To encourage spending is the first duty of salesmanship, and salesmanship has come to be regarded as one of the noblest exercises of human powers. The most famous universities institute courses on salesmanship and advertising, produce laboriously scientific treatises upon the methods and mysteries of these arts, and hold solemn conferences of their professors. The number of sellers is increasing far more rapidly than the number of producers. The outlay upon advertisement reaches incredible dimensions, and the best advertising mediums, such as the *Saturday Evening Post*, charge almost what they like and have waiting lists for their advertising pages. It is impossible to escape from the incessant iteration of the one great cry, Spend, Spend, Spend. In the most alluring forms that ingenuity can devise, the incitement to spend is unweariedly thrust upon you, and only a strong and healthy-minded man can hope to escape the infection.

The most effective method of encouraging spending is the system of instalment-purchase which has run riot over the United States during the last few years. The motor industry, in particular, has lent itself to this method, and has thus succeeded in achieving that continual expansion of sales which has enabled it to reduce prices. According to Mr. Raskob, of General Motors, 95 per cent. of the motor-cars produced in the United States are sold on the instalment plan. That is why everybody owns a motor, and even the charwoman comes to work in her own car. But the system is applied to almost all the ordinary needs of life, except food. The young workman, by pledging part of his weekly wage, is able to start life with an equipment of comfort and even of luxury, for which he would

otherwise have to wait until he was too old to enjoy it. His wages are often almost wholly mortgaged by instalments on his house, his furniture, his car, his Victrola, his radio-set, his perambulator, his sets of unread classics, his wife's fur coat, his life insurance, and his shares or bonds in this company or that.

Opinion is much divided as to the effects of this remarkable development, and no assured judgment should be ventured until it has been submitted to the test of a period of bad trade. Some say that grave evils have sprung from the system, especially among the poorer classes; and predict that while it may work well enough in a time of abounding prosperity, it will bring chaos when prosperity declines: the system, these critics say, makes prosperity more hectic and adversity more grim. But on the other side it is pointed out that bad debts have been extraordinarily few—only a fraction of 1 per cent. in the motor trade, according to Mr. Raskob. Surely, the friends of the system argue, it is a good thing that a young man should be enabled to enter at once into the enjoyment of a fully-equipped life, for this will increase his self-respect and his eagerness to work and to earn. And it may be hoped that, by spreading outlay over a wide period, the system will tend not to heighten booms and deepen slumps, but to even them out. One thing at least is true. This lavish spending has not diminished saving and investment, which have increased more rapidly in all classes, and especially in the working class, than ever before.

The high-wage and high-consumption theory is not one of the main causes of American prosperity, though it may have made prosperity more flamboyant. High wages and lavish spending are rather the consequences than the causes of a well-

being which is due to other factors. They cannot be put forward as a recipe for well-being in a country whose circumstances are utterly different. Nevertheless, it is something to have had a demonstration of the fact that it is good for industry, and not bad, that the highest practicable wages should be paid. Apart from all else, the general atmosphere of enjoyment, of conquest and of acquisition which the practical working of the theory creates is unquestionably favourable to hard work, to hopefulness and to good-will.

CHAPTER VII

MASS-PRODUCTION AND MASS-DISTRIBUTION

IN his stimulating and suggestive little book *The Way Out*, Mr. E. A. Filene asserts that the greatest contribution of America to human progress in this generation, and the main secret of her prosperity, has been the immense development which she has given to mass-production methods. He believes that mass-distribution is the next stage in a process which is making a great variety of satisfactions cheaply available to the mass of men. And he contends that imitation of these American methods is the only "way out" for impoverished Europe.

Before we can accept these rather sweeping conclusions, there are several questions on which we ought to satisfy ourselves. Were the conditions which encouraged the extraordinary recent development of mass-production in America in any degree peculiar to that country, or are they capable of being reproduced in our own and other countries? Has the mass-production method really become characteristic of the whole of American industry, or is it confined to a few industries to which it is appropriate? And, finally, would these methods be suitable for a country which has to live so largely by foreign trade as we must do? For my own part, I cannot resist the conclusion that all these questions must be answered in a sense unfavourable to Mr. Filene's theory. We can doubtless do much more than we have yet done to utilise the mass-production method where it is suitable. But it is not here that our hope for the future lies, so much as in quality-

production, and in an intelligent diversification of output such as Dr. Klein recommended to the manufacturers of New England. Perhaps I am a little biased in coming to this conclusion. One prefers to think that it is not really necessary, in order to maintain our people's livelihood, that we should contemplate a universal extension of the methods pursued in the Ford factory, which reduce men to the level of automata.

Mr. Filene, like most Americans and many Englishmen, seems to me to be hypnotised by the achievement of Henry Ford. This is not surprising, for Mr. Ford is unquestionably a man of genius. His genius has been displayed in his imaginative grasp of the potentialities of the motor-car; in the success with which he has eliminated human craftsmanship from the manufacture of motor-cars, substituting for it the most complex mechanism; in his brilliant extension of this process from the car itself back to the materials of which it is made; in the courage he showed when he progressively reduced prices on a scale that could only be justified by immensely increased sales; and in the bold conception that, by offering unheard-of wages, he could buy for himself the dictatorial power required for the exercise of his Napoleonic designs. By these means he not only accumulated for himself a fabulous fortune, but in an incredibly short space of time he turned the motor-car from a luxury-toy into one of the commonplace necessities of ordinary life; and thus played a greater part than any other man in one of the great revolutions in the conditions of human life.

But it does not follow that the methods by which these triumphs were achieved would be equally successful in other spheres. On the contrary, a little reflection suggests that this gigantic achievement would not have been possible in any other field than the motor industry, or in any other

country than America, or in any other time than the last twenty years. Time, scene and opportunity coincided. If they had not, Henry Ford would probably have remained "a mute, inglorious Milton."

The motor-car was a new and revolutionary invention, capable of immeasurable expansion, and meeting a universal need, which was none the less real because it was not realised. America, with its vast spaces and its active and mobile people, needed the new invention more than any other country. The Americans were rich enough to be able to buy cars wholesale. And they are also, beyond most other peoples, eager to try new things yet, at the same time, extraordinarily susceptible to the herd-instinct : they love to do the same things, wear the same clothes, eat the same breakfast-foods, and think the same thoughts as their neighbours, and are prone to take to horn-rimmed spectacles, or Rotary Clubs, or any other new fashion, *en masse*. No set of circumstances could conceivably have been more favourable to mass-production, and no commodity more suitable for it than the motor. Finally, the time was heaven-sent : the years just before the War, when the old modes of transport were being strained ; the years during the War, which could not have been carried on at all without motor-cars ; the years after the War, when sudden prosperity flooded America, and every workman's first ambition was to possess a car.

What is true of the motor industry is true of others also in a less degree. Mass-production is especially encouraged by an open market of great purchasing power and of a marked uniformity of tastes. And as these conditions exist in a unique degree in America, it is not surprising that America should have distanced the world in this kind of production.

There is a second conclusion which may be drawn

from the history of Mr. Ford. It is that mass-production has its very definite limits and dangers. Mr. Ford carried his mechanising and standardising process to the utmost possible limit; perhaps he could not have achieved his results in any other way. But he had to pay the price: having sacrificed the element of craftsmanship, he cannot vary his styles without immense outlay and very complicated rearrangements of his colossal mechanism. His rivals, who retained greater elasticity by preserving a larger element of craftsmanship, are now seriously undermining him, by changing their patterns and offering their customers something newer and more individual. The Ford car has dropped from the first to the third place among American cars: it may drop yet lower. An extreme degree of standardisation has its dangers.

In truth, the methods of mass-production have not been introduced, and cannot be introduced, in the greater part even of American industry. They are wholly unsuitable, for example, in the weaving industry, where the first need is a constant change and variety of pattern. The danger of excessive standardisation is greatest of all for the manufacturers of a country like ours, which lives by export trade, and whose traders must therefore study and cater for the infinitely varying tastes of customers of every climate, race and tradition.

Mr. Filene is surely wrong, then, in looking to mass-production as the cure for our ills. If we were to run after this false god, we should lose that which is still our strength: quality-production, based on craftsmanship. But when all this is said, we have still a good deal to learn from America in the reduction of costs and the avoidance of waste by abandoning needless varieties of style and size which have no special justification. There is no reason,

for example, why all screws of the same size should not be interchangeable ; and that is merely a single instance which could be multiplied a thousandfold.

The American Department of Commerce, under Mr. Hoover, has been active since 1921 in persuading groups of traders to agree on a simplification of the forms and sizes of articles of common use, such as bricks and tiles, tools, steel sheets, piece goods, paper and cardboard, so as to make ordering easier, and at the same time to reduce the number of styles which a manufacturer will have to produce.

An illustration of the way in which simplification of this sort may cheapen and quicken production is provided by the building trade. A new factory can be erected in America more cheaply and far more quickly than in England, despite higher costs of labour and material, because there are accepted standard sizes for factory rooms ; beams and girders, window-frames and doors, can be manufactured wholesale in the normal sizes at a lower price ; and the architect needs only to put together the number of units required, and can always get his materials without having to wait until they are specially made. This is what is called "simplification" rather than "standardisation" ; but it makes some of the economies of mass-production possible in the factories which produce the materials. There is no reason why we should not enjoy the advantage of these economies, which need not interfere with freedom of design.

Alongside of mass-production goes mass-distribution, which should in theory give to the consumer what he wants, of better quality and at a lower price. Mr. Filene appears to believe that we shall gain even more from mass methods in distribution than from mass-production ; and he seems to think

that the effete countries of the old world are definitely behind America in this respect.

Two types of retail distribution are gradually squeezing out the old-fashioned individual retailer. The one is the big "department store"; the other is the specialised "chain-store," with branches all over the country. Both achieve cheapness by being able to buy in vast quantities, and therefore to gain the economy of large-scale production. But the department-store spends so much on display and advertisement that it often has no advantage over the small shop; and as its customers often want distinction and individuality in what they buy, there are very definite limits to the extent to which it can use the products of mass-production. The chain-store, on the other hand, deals mainly in standardised articles of common consumption, and for that reason can get all the advantage of wholesale orders; while it need not spend much on advertisement, its innumerable little shops, planted near the homes of their customers and having some distinctive sign, being in themselves standing advertisements. Hence the chain-store is growing with extraordinary speed in America, and the principles of chain-store management are being elaborately studied in such books as Hayward and White's systematic treatise on the subject. In general the principles are—to stock a limited number of standard articles; to sell for cash only, the customer carrying away the goods; to buy wholesale for the whole chain; and to pass on these economies to the consumer, making only a small profit on a huge turnover. Each chain is, of course, specialised for a particular line of trade. It is impossible to form any estimate of the number of these chain-stores. But one grocery chain had over 10,000 shops in 1924, and there are more than 30,000 chain groceries in the United States; there are

over 3,000 drug stores, though there were only 25 in 1900; the 5 and 10 cent stores number more than 3,000, half of them being Woolworth's; and in the clothing-trade one chain, the J. C. Penney Store, has grown in twenty years from a single store with a turnover of \$28,000 to a string of 571 with a turnover of some \$70,000,000.

This is, no doubt, a movement of real significance. But it is not different in kind from what we already have in England: we know the "department-store," though we don't call it by that name, and though we have nothing as big as Wanamaker's, or Macy's, or Marshall Field's; while Manfield, and Lyons, and Mac Fisheries, and Boots, and the Home and Colonial Stores have given us some glimmering of the meaning of the chain-store. Moreover, we have the huge co-operative system, to which there is no parallel in America, and which gives to its member-customers many benefits of which the chain-store knows nothing. Mr. Filene is perhaps mistaken in thinking that the alphabet of large-scale retail distribution has yet to be learnt from America by the Old World: we have at least got as far as words of one syllable. And we do not find that any profound change in our lives, or any great improvement of our conditions, has so far resulted from such modest progress as we have made.

It is surely an exaggeration to suggest that this development, even in conjunction with mass-production, will provide, as Mr. Filene thinks, a "Way Out" to prosperity. Both mass-production and mass-distribution may yield greater efficiency and lower prices. But they are not in themselves the keys to prosperity. We have doubtless a good deal to learn from America in these respects; but those who think that here is to be found the secret of American prosperity have lost the sense of perspective.

CHAPTER VIII

DETROITISM

THE rapturous whirl of making and spending which is modern America has for its pivot the motor industry. The motor is as definitely the centre of the new industrial advance as the railway was of the earlier advance in the mid-nineteenth century, in which England took the lead. The home of the motor industry is Detroit. Detroit and (for different reasons) Los Angeles are the most rapidly growing cities in America, the representative cities of twentieth-century industry, as Cleveland and Pittsburgh were the representative cities of the great steel age at the end of the nineteenth century. In twenty years the population of Detroit has grown from 300,000 to 1,300,000. It is already the fourth city of America, having beaten Boston and Baltimore, St. Louis and San Francisco ; it hopes soon to oust staid old Philadelphia from the third place. As a proof of its virility, it is engaged in erecting the Tallest Building in the World, though it has ample room for expansion, and no such excuse for building upward as was given by the cramped area of Manhattan Island (New York). The Tallest Building in the World is not a necessity—it is a symbol, an expression of Detroit's spiritual exaltation. It is, of course, a commercial building.

Nowhere else will you find both the methods and the spirit of modern American industry more clearly revealed. Detroit is the home of the Prophet Ford.

It is the home of mass-production, of very high wages and colossal profits, of lavish spending and reckless instalment-buying, of intense work and a large and shifting labour-surplus. Its spirit is the spirit of genial and cocksure ruthlessness. Detroit prides itself upon its industrial methods, and is eager to persuade other American cities to imitate them. It regards itself as the temple of a new gospel of progress, to which I shall venture to give the name of "Detroitism." Many foreign observers, such as Messrs. Austin and Lloyd, seem to imagine that Detroit is a sort of microcosm of America, and describe the doctrines of Detroitism as if they were accepted and applied throughout the whole of American industry. This is very far from being the case; as Detroit admits, with a mixture of regret and pride in which pride predominates.

Fundamentally there is nothing very novel in the gospel of Detroitism. It is a little early-Victorian. When one listens to one of its prophets, one feels that one might be in Manchester in the 1840's. Detroitism is Manchesterism adapted to new conditions. In this chapter I propose to attempt an analysis of the Detroit gospel, so far as this is possible to a mere student whose hardened heart cannot quite melt to the enthusiasm of its votaries. The tenets of the faith may be set forth as follows:

(1) Mass-production is the way to salvation, and Henry Ford, though now a little *démodé*, is still its prophet. It should be the aim of scientific business to reduce to a minimum the element of human labour in production, and in particular to eliminate as far as possible the variable and unpredictable factor of craftsmanship by the development of mechanical processes, so that such labour as remains shall be reduced to machine-tending, and the old distinction between skilled and unskilled labour

shall disappear. Mr. Ford has carried this process farthest. He has carried it to a pitch of rigidity which now handicaps him. But even the huge corporation of General Motors, which has distanced Ford by retaining some elasticity, was able to boast last year that while its output and its profits had been enormously increased, its labour force had been diminished by 2,000 men.

(2) High wages, high production and high consumption go together. This is an essential element in the Detroit gospel. It is on all grounds good policy to pay very high wages ; but perhaps the chief reason is that if you offer very high wages there will always be an available pool of applicants to draw upon, and if you want to " fire " a man you can always replace him. It is true that even now no factory in Detroit pays as high a *minimum* wage as Mr. Ford ; but I was assured by the head of one of the great motor companies that the *average* wage in other factories was as high as in Ford's. High wages are also necessary as the condition of free spending. Nowhere is the system of instalment purchase more enthusiastically lauded and practised than in Detroit.

(3) The only interest of the worker is to get a high wage. He does not want to be consulted about factory-conditions, and if he does, it is not his business. The self-respecting worker resents and dislikes the paternalism of welfare-schemes and the like. He does not want to be coddled with schemes for helping him in sickness or unemployment. Mr. Ford, who is by instinct a dictator, was inclined at one time to be paternalist, but he has in the main dropped this policy. The general attitude of Detroit is that the employer ought to pay a good wage for a good day's work, but beyond that leave the workman to himself, and assume no responsibility for his welfare.

(4) Detroit has little interest in the distribution of ownership, about which the industrialists of other cities are so enthusiastic. Popular ownership of industry is not an element in the Detroit creed, which insists rather upon the absolute authority of the employer. Mr. Ford believes so intensely in the concentration of authority that he has actually bought out every other shareholder, thus making himself and his son the sole proprietors and absolute masters of their vast concern: perhaps the only instance in the world of personal autocracy on so vast a scale. He is said to have paid as much as \$31,000,000 to buy out a man who helped him with \$10,000 at the start. None of the other firms has attempted this. The other great motor firms are more normally financed, and in some cases (notably the premier corporation of General Motors) their stock is widely held. Recently the General Motors Corporation has initiated a scheme of employee share-purchase which implies a change of policy. But real control is everywhere in very few hands; and this is held to be essential as a means of securing absolute power for management.

(5) Efficient management is the secret of success in business. Detroit unquestionably exacts a very high standard of managerial ability. It profoundly respects the science of management, and appointments are made strictly on merit. But once appointed, the manager must make good: he must "get on or get out." The motor industry is still too young to have been weakened by social or family influence to any serious extent. Because the manager is the pivot of the business, he must have absolute and autocratic power, subject only to the approval of the directors on broad questions of policy.

(6) It is an essential of efficient business that

production should be very closely adjusted to day-to-day demand. An efficient factory will never have more than a small margin either of raw materials or of finished products in stock. Detroit has certainly succeeded in carrying this kind of economy to a very fine point. But the policy of never manufacturing for stock, but only for the current demand, involves a very large labour turnover. Detroitism prefers to waste men rather than materials. Large numbers of men are constantly being taken on or discharged. This is only possible because high wage-rates ensure that there shall always be an army of unemployed men waiting for work, while mechanisation reduces to a minimum the cadre of skilled men whom the concern must at all costs retain.

(7) It follows that the tie between the worker and the concern for which he works is purely a "cash nexus"—more purely so, perhaps, than anywhere else in the world. Detroit is in an exceptional degree a city of bachelors, who come to work for high wages for a time, but seldom make an abiding home or a fixed connection with a particular firm. Sometimes they leave because they cannot long stand the monotonous strain, sometimes because they are laid off through the fluctuations of demand, sometimes because they are "fired" for not keeping up the pace. Detroit has a larger fluctuating population than most cities. It makes no special provision for them, and feels no responsibility for them. It throws upon the rest of the country the burden of its discards.

(8) Detroit believes profoundly in scientific research, and spends lavishly upon it. It believes also in the pooling of knowledge. One of its most remarkable institutions is a monthly meeting of the managers and experts of the rival motor companies,

who freely communicate to one another any advances or improvements they may have made. In spite of their keen rivalry, there is a strong *esprit de corps* among them. It springs from their pride in leading the world, and from the common policy which they pursue on all labour questions.

(9) Between Detroitism and Trade Unionism there must obviously be a fundamental antipathy. There is, in fact, war to the knife between them; and Detroit is the only great city in the United States in which the Trade Union movement has had to accept, for the moment at any rate, complete and unqualified defeat. Down to 1902 the Trade Unions were active, and wages and other conditions were (as elsewhere) largely determined by negotiation between them and Employers' Associations in the various trades. But in that year the leading employers determined to have done with Trade Unionism, and to make a combined stand for the Open Shop. They therefore established a general "Employers' Association of Detroit," whose annual reports make very instructive reading. By means of high wages and the practical abolition of skilled labour through the development of mechanism, they have won an almost complete victory. The only important occupations in Detroit in which Trade Unionism has any hold are the cinema houses and the building trades—trades in which it is impossible to displace the skilled man by machinery.

Even in building (which is, in America as in England, the trade in which restriction of output is most widely practised) Detroit has contrived to get the better of the Unions, though not to drive them out. One big contracting firm works on the Open Shop system: it is steadfastly backed by the Employers' Association. The other contractors, though they cannot get the necessary skilled work-

men except among Union members, have entered into an agreement that whenever a strike takes place in any building, they will all combine to finish the job. The Unions have had to submit to this arrangement, which is known as the American Plan. The result is that, though the majority of building operatives are Union men, the rate of construction in Detroit is much higher than in other cities. Elsewhere the number of bricks set per man per day sometimes falls as low as 410. In Detroit the average is said to be 1,400-1,600. Other cities are said to be following the Detroit example: both San Francisco and Cleveland, which are fully unionised cities, have recently founded Employers' Associations on the Detroit model, and raised large funds to finance the fight; and in a recent struggle in San Francisco the Employers' Association won a notable victory over the building trades. But in these cities the struggle seems to be mainly with the building trades. At any rate, I was told in Cleveland that there was no thought there of trying to break the Unions, which are strongly established in the iron and steel trades, and are working well.

Obviously Detroit is regarded by the American Trade Union movement as a dangerous black spot. Last spring the American Federation of Labour boldly attacked the enemy's headquarters by running a Union campaign, which led to some minor strikes, and by holding its annual conference in the city. The President of the Federation, Mr. William Green (who had recently announced that it was the policy of the Federation to encourage organised co-operation between Capital and Labour) is a religious man, a lay preacher, and he usually gives a religious address in some church during the week of the conference. No church in Detroit dared to ask him, lest they should alienate their

subscribers, and the Y.M.C.A., where a meeting was arranged, cancelled it on the demand of its leading supporters.

I cannot feel that the methods and policy which I have called "Detroitism" provide a solution for the problems of industrial organisation. There are of course, lessons to be learnt from Detroit, as from any achievement of a body of alert and able men. But the Detroit system is, I am sure, an evanescent thing, the product of peculiar conditions, and likely to disappear when these conditions cease to be peculiar. The motor industry has been undergoing an extraordinarily rapid development, which put it into a different category from all the older industries. The possibilities of expansion seemed to be, and for all practical purposes were, unlimited. That stage is nearly at an end. The home market is probably nearing the saturation point. In the foreign market American manufacturers are hampered by their own protective system, and have to meet the competition of other countries, now reviving after the War. When the industry sinks to the level of other industries, and has to be content with a normal rate of expansion, its conditions will change, its procedure will be assimilated to that of other industries, and, in particular, it will have to deal with organised labour. Detroitism is not likely to spread to the rest of America, because the conditions which have produced it cannot be imitated.

CHAPTER IX

AMERICAN TRADE UNIONISM

No aspect of the contrast between the industrial conditions of England and America is more significant or more instructive than the differences between the organisation and aims of the Trade Union movement in the two countries. The American movement has, in a sense, sprung from the English movement. But it has followed a divergent course, especially during the last thirty years. To-day the two groups exchange "fraternal greetings" at their annual gatherings, but their attitudes are poles asunder, and each thinks the other is pursuing a wholly mistaken policy.

In numbers the American Unions are far behind their English congeners. Their total membership is estimated at less than 4,500,000, and it has shown a decline during the last few years, because the adoption of the high-wage theory by employers has seemed to make combination by the workers less necessary.

This relatively small membership is due to several causes. Trade Unionism has never won a strong hold in the Southern States, perhaps because of the racial cleavage between black and white labour. It has made, as yet, little impression upon the unskilled or semi-skilled trades, and is in the main limited to the great crafts, and organised upon a strictly craft basis—as the British Unions were forty years ago, before the London Dock Strike

brought the "new unionism" of the unskilled workers into the field. Workmen in America (other than skilled craftsmen) move far more freely from one occupation to another than they do in England, and they are slow to label or fix themselves in a particular pigeon-hole; this tells against the organisation of unskilled workers. The skilled trades are, however, pretty completely unionised—at least as completely as the corresponding trades were in this country twenty years ago. Detroit has only succeeded in keeping Trade Unionism at arm's length because the motor industry is so highly mechanised that it depends almost wholly upon unskilled or semi-skilled labour.

In bargaining-power, also, the American Unions appear on the surface to be far behind the British Unions. National negotiations for the fixation of wages and conditions in whole trades, which have become normal in this country, are almost unknown in America, and even the strongest Unions, such as the Railway Brotherhoods and the Clothing Workers, carry on their negotiations (as the British Unions did a generation ago) either with individual firms or with local groups of employers. This is in part the necessary consequence of the immense size of the country and the consequent wide variation of conditions. But this piecemeal method of bargaining seems in most cases to achieve results quite as satisfactory as national negotiations, and some of the strongest Unions are convinced that this method is best for their own interests. It is easier, they believe, to break a single twig than a faggot.

Finally, the American Unions are far less closely linked together than the British Unions. There is no all-embracing organisation corresponding to the Trade Union Congress, which in this country has arrogated a growing degree of authority over its

constituent parts, until in May 1926 it asserted the power of calling all or any of them out at the word of command. The nearest analogy is the American Federation of Labour. But it is deprived by its constitution of all executive authority over its federated societies. Moreover, it includes only about three-quarters of the total Union membership : some of the most powerful and successful of the Unions, notably the Railway Brotherhoods and the Amalgamated Clothing Workers, stand aloof from it.

In many respects the American Trade Union movement stands to-day where the British Trade Union movement stood forty years ago—before the rise of the “ new unionism ” of unskilled workers, and before the creation of the Labour Party. The attitude and policy of Samuel Gompers and William Green in twentieth-century America (of which I shall have something to say presently) closely resemble the attitude and policy of such British Trade Union leaders as Thomas Burt and Henry Broadhurst in the 'eighties of the last century. Are we to conclude that the American Trade Unions are merely a stage behind, and may be expected to follow the same line of development as the British Trade Unions ? Will they in due time become the foundations of a class-party which will adopt as its aim the destruction of the existing economic order and the introduction of Socialism ? The American Labour leaders of to-day would, with few exceptions, vehemently repudiate this anticipation. But Burt and Broadhurst, if the future development of British Trade Unionism had been predicted to them, would have denounced the prophecy as preposterous and impossible with equal vehemence.

Time alone can give an answer to this question. But I do not think it likely that the American Unions will develop as the British Unions have

done ; and there are several good reasons for taking this view.

In the first place, the wide diffusion of ownership which is now going on in America, and the remarkable part which is being played in this process by the financial enterprises of some of the Unions, would be obstacles to any definitely anti-capitalist movement. In the second place, some of the Unions (as we shall see) are finding their way to effective and profitable forms of organised co-operation with management, which open out new lines of development, likely to be far more advantageous than mere anti-capitalism. And, in the third place, in spite of the general hostility of employers to Trade Unionism, some of them (for example, the directors of the Baltimore and Ohio and other railroads, and the leading employers in the clothing trade) are showing an eagerness to welcome Union co-operation, which is of happy augury ; while others, such as Mr. Henry Dennison and Mr. E. A. Filene, are working out novel and hopeful methods of business organisation involving real partnership with the workers.

If the spirit of Detroit were predominant throughout American industry, it is probable that not even diffused ownership would prevent the growth of an anti-capitalist movement. But, happily, the spirit of Detroit, though widely prevalent, is anything but universal. A more liberal attitude—a real eagerness to find the way to a more democratic organisation of industry—is sufficiently widespread to give ground for hope, and to make it plain that the dictatorship of the proletariat is not the only alternative to the dictatorship of the “millionariat.”

For these reasons the development of Trade Union policy in America deserves more attention than it has generally received in this country, and

the new lines which some of the more powerful Unions have recently been following particularly deserve the consideration of those British Trade Unionists who are beginning to be uneasy about the path in which they have been led during the last generation.

The Policy of the A.F.L.

During the last forty years the American Federation of Labour (which was founded in 1886) has represented the main current of Trade Union opinion, and has largely dictated Trade Union policy. The Federation includes more than two-thirds of the Unions, embracing more than three-quarters of the total membership. The President of this powerful body has no executive power. But he is a national figure, the recognised (though not the unchallenged) spokesman of the whole Labour world.

Throughout the history of the Federation, until his death in 1924, the Presidency was held by one man, Samuel Gompers—a continuity of leadership which is not easily paralleled in the history of British Trade Unionism, wherein, as soon as a man attains to leadership, he has to count upon the suspicion of his followers and the jealousy of aspiring rivals. Gompers was, of course, often criticised as timid or conservative; but his shrewdness, his long experience, and his unrivalled knowledge both of politics and of Trade Union affairs, gave him an unshakable ascendancy. Of British birth, he was not easily influenced by doctrinaire theories, and instinctively distrusted extreme opinions. Time and again he used the threat of disaffiliation to purge particular Unions, or particular centres, of extremist elements; and he waged triumphant war against the Industrial Workers of the World (I.W.W.), an

extremist organisation which was noisy for a time.

In a large degree, Gompers shaped the policy of American Trade Unionism. He insisted that the true field of Trade Union action was the industrial field, and resisted all attempts to create a separate Labour Party. For him the function of Trade Unionism was, not to reorganise society, but to secure for its members, by common action, the biggest wages and the best conditions that the actual productive power of industry rendered possible. To achieve this end, he trusted to the long-used weapons of collective bargaining, backed by the strike. He recognised the folly of resistance to labour-saving devices, and knew that increase of output means increase of divisible wealth: the fact that American workmen (except in the building trades) recognise these facts more fully than the workmen of other countries is in part a tribute to his sanity.

But in accordance with the older Trade Union tradition, he left to the employer the sole responsibility for securing efficiency, and was reluctant to contemplate the possibility that the Trade Unions might assume a share of this responsibility, and by so doing win an increased control over the conditions of production. For that reason he was somewhat out of touch with the more modern Trade Union movement, which is looking in this direction. For the same reason he was unable entirely to demolish the criticism that Trade Unionism tends to restriction of output. So long as the Trade Unions limit themselves to demanding better labour conditions without considering the capacity of industry to provide them, and so long as employers make profits their sole end without thought for the needs of labour and of the com-

munity, both sides will, in different ways, be open to this charge.

Gompers' successor, Mr. William Green, has continued his predecessor's tradition without his predecessor's prestige. In one important respect, however, he has advanced from Gompers' attitude, having declared that it is the aim of Trade Unionism to co-operate with management in securing the utmost efficiency of production, on condition that labour receives its fair share of the resultant wealth. Mr. Green, like Mr. Gompers, is the very antithesis of a revolutionary. He is a sane and solid-thinking man, bred in the Trade Union tradition. Nothing could have been more absurd than that he should be silenced as a dangerous man, as he was at Detroit last year.

The social and economic standpoint of the American Federation of Labour has been expounded in many pamphlets, which are markedly different in tone from the output of Eccleston Square. It has recently been authoritatively defined in a book entitled *American Labour and American Democracy*, by Mr. W. E. Walling, which appears to be semi-official. Though Mr. Walling has to perform some feats of intellectual acrobatics to make it appear that all the various trends of thought in the American Labour world are really in accord, the main lines of the central body of opinion emerge pretty clearly from his book. They may be briefly summarised as follows.

In the first place, the overwhelming majority of American Trade Unionists definitely repudiate Socialism, in the strict sense of public ownership and public conduct of all industry. Even the small minority who call themselves Socialists with few exceptions accept the ideal of a society based upon private property and private enterprise ; and their

Socialism means no more than a desire that Labour should have a more effective voice in the control of industry, and that the irresponsible power wielded by financial interests should be brought under some form of public regulation. American Labour believes that the best way of rectifying the maldistribution of capital or ownership is to bring about a wider distribution of it, and not to concentrate it in the hands of the State.

In the second place, with equal definiteness, they repudiate the idea of class-war—all the more because class-distinctions in America are vague and shifting, so far as they exist at all, and nobody regards himself as belonging unalterably to a particular class. They value the strike-weapon, and use it freely. But they hold that it should be used only for the redress of specific industrial grievances, and only against those employers who refuse redress. They are opposed to the idea of a General Strike—not merely to a strike over the whole range of industry, but even to a strike throughout the whole of a particular industry. They hold that when the strike-weapon has to be used for an industrial purpose it should be used in such a way as to inflict the minimum of inconvenience upon the public. To strike against the community, even for an industrial end, seems to them to be both a crime and a blunder; they believe that, in general, they can best obtain the improvements they desire by piecemeal strikes against selected employers, who will be likely to “feel the draught” when their trade passes to their rivals. This seems to them to be at once good tactics and good citizenship. There are, of course, fiery elements who want war for its own sake; and there have been instances of industry-wide strikes, especially in the mining industry, which is, as in England, the most disturbed of all. But the great

body of American Trade Unionists believe that the best results are to be obtained by strikes of limited range and definite objectives.

In the third place, they are generally opposed to political action through a special Labour or Trade Union party. Some elements, indeed, were fascinated for a time by the rapid advance of the British Labour Party, especially when it formed a government ; but the poor results of this achievement have substantially diminished the fascination.

The accepted doctrine of the great majority seems to be that in so far as Trade Unions take political action at all, it should be limited to specific industrial objects, and not pretend to cover the whole range of politics ; and that the most profitable mode of political action is to nurture, in both of the existing political parties, an element friendly to Trade Union aims. For this purpose Trade Unionists are advised to vote for specific candidates who have shown themselves friendly, and against others who have shown themselves hostile, irrespective of whether they are Republicans or Democrats ; and in some cases they are urged to concentrate upon the " primaries " in which candidates are selected, choosing the party which has locally the best chance of success.

The nearest approach to a departure from this policy was the alliance that was made some years ago with the dissatisfied farmers in some of the north-western States. For a few years there was in these States a shadowy farmer-labour party, which Senator La Follette tried to annex as the basis of a third party at the last Presidential election. But the Federation took alarm, and since then the reaction against any separate party policy has strengthened. It is argued that members of the Trade Unions are, after all, citizens as well as workers, and would rightly resent any attempt to regiment

them on issues which extend far beyond the industrial sphere ; and that in actual fact better results are obtained by influencing elements in each of the existing parties than by antagonising both.

I have even heard the analogy of England used in support of this view. I have been asked whether it was not true that all the great English measures of social reform—the Trade Union Acts, the Factory Acts, the Workmen's Compensation Acts, the Social Insurance Acts and so forth—had been obtained through pressure upon the Liberal and Conservative parties ; and whether there was any single measure of this kind that could be credited to the political Labour Party. And when—anxious to be fair—I replied that, after all, the Labour Party had only been in office for nine months, and even then without a clear majority, I was asked whether, even supposing it had a majority, the chance of the measures it proposed passing through both Houses would not be decreased by the fact that it was a class party which proposed them.

Abstention from a definite attitude in party politics does not, however, mean that American Trade Unionism has no political theory or aims. It repudiates Socialism, as I have said. But it also repudiates the extreme forms of *laissez-faire* which are prevalent in America. And Mr. Walling's elaborate analysis shows that it has advocated a great increase of State action in industry, not only for the purpose of effecting such social reforms as the abolition of child-labour and the institution of workmen's compensation and old age pensions, but for a more effective regulation of industrial practice, especially in regard to trusts, combines and public utilities. In short, the political outlook of American Trade Unionism very closely corresponds with that of British Liberalism.

In spite of their moderation and their readiness for co-operation to increase output, the American Trade Unions are quite as bitterly attacked as their English congeners on the ground that they tend to restrict output, to hamper production by disputes about demarcation, and to place obstacles in the way of the free recruitment of labour. These charges probably have some foundation, though less than in England. Such practices are the natural consequence of a period of rapid change, when dislocation results from every change of method, and when the spectre of unemployment is never wholly banished. They are less serious in America than in England mainly because the opportunities of re-employment are so great as to minimise the fear of unemployment; but partly also because official Trade Unionism is not wedded to restrictive practices.

In the building trades, indeed, as in this country, the charges are justified: despite very high wages, restriction of output is habitually practised, though American bricklayers have never fallen to the level of 389 bricks a day, which was accepted by Mr. Wheatley as his basis of calculation for the Housing Act of 1924. It is these practices which provoke, and seem to justify, the policy which I have called "Detroitism." And a sense of the folly of these practices has contributed to bring about the new tendencies in Trade Union policy which have been among the most significant features of post-war development.

The New Unionism

These new tendencies are so important that it is no exaggeration to describe them as the New Unionism, since they involve a wholly new method and technique in Trade Union administration.

They spring from a conviction that the old tradition of armed watchfulness varied by open war against the managers of industry does not afford the best means of advancing the interests of labour. This attitude, since it produces suspicion and distrust, is hostile to production, and therefore decreases the amount of wealth from which labour can claim its share. The strike, hitherto the normal weapon of the Trade Union, is recognised to be a two-edged weapon ; like war, it leaves both victor and vanquished poorer. Some substitute for it must be found, if progress is to be made.

The New Unionism is engaged in forging new and more efficient instruments of advance to replace the old ; and in the process the Unions are turning their swords into ploughshares.

In the first place, the Unions (as we have already seen) are entering the field of finance. Why should not the immense corporate funds of the Trade Unions, and the very large floating deposits of millions of workmen, be brought under the management of Labour Banks, instead of being left in the hands of the existing banks, who use them as a means of wielding control over industry ? This is the idea that lies behind the remarkable development of Labour banking. By these means organised Labour hopes to secure for itself a strength and a recognition otherwise unattainable, and to win a share in the financial control of industry.

Again, why should not the workers acquire, by their savings, a growing control over the industries in which they work ? It has been estimated that by a concerted policy of share-purchase, the employees of the United States Steel Corporation could in seven years acquire a majority-control over that company. But if they are to use this kind of power intelligently, their leaders must understand the

mysteries of finance and of company organisation. They are acquiring this understanding in the banks, investment trusts and other enterprises which they are running with a very high degree of efficiency.

The more intelligent Labour leaders are perfectly aware of the reasons why trading companies are selling their stock to their employees: the aim is to avert strikes. They know that these holdings are very frequently deprived of voting rights. Not long since, their instinct would have been to resist and denounce the movement. They do not do so, partly because they no longer think of strikes as a useful instrument of progress; partly because they are looking forward to the day when workman-shareholders will be able, if not to control, at least to influence the policy of the companies for which they work. The more the companies depend upon this source for their capital, the less they are likely to alienate, anger and impoverish the class from which it is drawn. The disfranchisement of these shareholders can be redressed by a revision of company law. In the meanwhile, Labour is teaching itself how to use its growing financial power.

But this is only one aspect, and perhaps the least important aspect, of the forward policy of the New Unionism. Far more significant is the determination to drop the attitude of enmity and aloofness which has hitherto been maintained in relations with management; and to offer in its place active and practical co-operation to secure greater efficiency and larger output. In other words, the more progressive Unions are prepared to accept a share of responsibility. But with responsibility goes power. The Unions legitimately claim that if they are to become helpers instead of merely critics, they must be taken into frank consultation; and that if they are to undertake to persuade their members to put

forward their utmost efforts, they must in return be enabled to ensure for them a full share of the extra wealth created by this extra effort.

This new temper has not yet won over all the American Trade Unions, or the bulk of them ; nor are all the employers yet ready to welcome the co-operation that is offered. Indeed, it is probably true that, so far as employers are concerned, the new policy would have a far better chance of success in England to-day than in America, where Detroitism thrives. But some of the strongest Unions have definitely committed themselves to this new mode of advance, as a substitute for the old methods of ultimatums and strikes ; and some of the employers are welcoming it. A more detailed study of the work of certain of the Unions will illustrate this.

The B. and O. Experiment

In 1922 there was a serious strike in the railway workshops. When it was over, some of the railway companies determined to guard against a repetition by forming tame " Company Unions " : they have had some success, though at the cost of a good deal of bitterness. But the Baltimore and Ohio Railroad (whose President, Mr. Willard, was an old railway-servant, and is still a member of one of the Railway Brotherhoods) decided to try another method. The Company had already, before the strike, been in negotiation with the Shop Unions on the possibility of organised co-operation ; and after the strike the negotiations were reopened on the initiation of the Machinists' Union, which corresponds to our Engineering Union. It was the Machinists' Union which started the first Labour Bank : now it was to be concerned in one of the first schemes of organised co-operation.

Seven Unions—all organised on a craft basis—

were concerned with the railway building and repairing shops, and some of them had members engaged in other industries besides the railways, as the A.E.U. has in Britain. All seven, however, were affiliated to the American Federation of Labour, and they were also closely federated among themselves for the purpose of dealing with the railway companies. There was a distinct organisation, including representatives of all the Unions, for each railway—elected by the employees on the railway. In this way they combined the advantages of separate craft Unions with those of the industrial Union ; and the arrangement made negotiation much easier.

An agreement was made with the Baltimore and Ohio Company, under which the Company recognised the Unions and undertook to work with and through them ; while the Unions on their side agreed that they would no longer limit themselves to putting forward demands for increases of wages or the redress of grievances, but would, with the Company's support, assume a share of responsibility for securing efficiency in the shops. In return for this the Company promised to do everything possible, in consultation with the Unions, to stabilise employment, which had been very irregular, and it also promised to share with the men any additional profits which might be derived from co-operation, in modes to be later agreed upon. It was part of the agreement that piece-work—to which the men strongly objected, and which (they contended) often led to a dangerous scamping of the work—should be abolished.

The Machinists' Union, which had taken the lead in these discussions, appointed at its own cost an expert engineer, Mr. Otto Beyer, to advise it. A beginning was made with a big shop near Pittsburgh, which had long been the most unsatisfactory

of all the shops on the system, and had regularly been closed down for that reason whenever work was short. Mr. Beyer went to these Glenwood shops, and in consultation with the men set himself to discover the causes of friction. He found that there were some twenty men who were regarded as the chief sources of trouble. He enrolled them in committees, and asked them to join in working out the best ways of increasing the efficiency of the shops. Eventually a joint committee was set up, which meets fortnightly to deal primarily with methods of improved working and secondarily with grievances as they arise.

The committee has worked successfully for two years. The sharing of responsibility for efficiency has worked wonders. Within four months Glenwood, hitherto the Cinderella of repairing shops, was being used for the reconditioning of locomotives, and in this way employment was stabilised. The system begun at Glenwood was extended to all the shops on the line, forty-four in number. Under a formal agreement with the Unions, the Company has agreed that the joint committees, at their fortnightly meetings, shall deal with such subjects as correlation of departments, storage of material, tool equipment, grouping of machine tools, the scheduling of work, the classification of car repairs, the disposition and reclamation of scrap, and the general conditions of the shop. Great economies of time and material have been made, and substantial savings have been effected. Grouching and friction have almost come to an end, because the men's representatives are jointly responsible for all shop arrangements; and the matters to be raised at the joint committees are habitually discussed in the Union lodges, hitherto solely devoted to negative criticism.

Mr. Beyer, who has been mainly responsible for the experiment, is anxious not to over-state the value of the results already achieved. They are only a beginning, and the difficult question of the estimation and distribution of the profits made has not yet been seriously tackled; the advantages reaped by the men have hitherto been limited to greater stability of employment. But he hopes that this is the beginning of an advance on the part of the Unions from a merely negative and destructive attitude to a constructive attitude, and a sharing of responsibility and control. The control does not yet amount to much, but so far as it goes it is real, because it is concerned with the points on which the men have knowledge and feel interest.

The B. and O. system has been adopted by the Canadian National Railway, with the warm support of Sir Henry Thornton. It has also been introduced on the Chesapeake and Ohio, the Chicago and North Western, and the Chicago, Milwaukee and St. Paul railways. It is the practical alternative to the unpopular system of piece-work, and to Company Unions. Thus far it has been justified by results, yielding better returns than the Pennsylvania Railroad has succeeded in obtaining by the other methods. The experiment is being watched with a great deal of interest, and it has the warm support of the whole Trade Union movement, which would probably be suspicious in England.

The feature of American Trade Union organisation which has made this experiment possible is worth emphasising. While in England the various unions concerned with railway shop-workers are apt to be on bad terms, and each of them tries to deal through a centralised organisation with a very heterogeneous body of workers both inside and outside the shops, in America these difficulties are overcome by a

federation of all the workers engaged in the shops of a particular company.

The Railway Brotherhoods

Outside the Federation of Labour, though in no way hostile to it, stand the four great Railway Brotherhoods which constitute the aristocracy of American Trade Unionism. Their work is surely unique in the Trade Unionism of any country. I have already described the remarkable financial ventures in which the Brotherhood of Locomotive Engineers and, in a less degree, the other Brotherhoods, have engaged. But the normal Trade Union work of these bodies is so distinctive, and so different from the practice of British Trade Unionism, that it deserves description. I was only able to visit the headquarters of two of the four—the Order of Railway Conductors at Cedar Rapids, Iowa, and the Brotherhood of Locomotive Engineers at Cleveland, Ohio. But the methods of the other two (the Brotherhood of Locomotive Firemen and Enginemen, and the Brotherhood of Railway Trainmen) are so closely similar that what is true of one is broadly true of all.

These four organisations cover the operating staff on the trains. Other railway employees, including shop-workers, signalmen and permanent-way men, are organised in twelve distinct Unions, which are affiliated to the Federation of Labour. Thus America adheres to the craft basis in a sphere in which, in England, organisation on an industrial basis has been carried furthest in the National Union of Railwaymen and the Amalgamated Engineering Union.

The Brotherhoods are, in fact, strongly attached to the craft system. They claim that by intimate co-operation among themselves, and (when neces-

sary) with the other railway Unions, they get all the advantages of an industrial union ; while they retain the advantages of a homogeneous membership, not too big and varied to be effectively managed.

To anyone accustomed to English Trade Union practice, the most striking feature of their system is that they do not insist upon all workers of their class joining, nor do they bring any pressure upon the railway companies for this purpose. On the contrary, members have to be elected, and are sometimes blackballed. But it is claimed that the grievances of non-members are taken up on the same footing as those of members. In practice nearly everybody joins, so that the working of any railway with which they have a dispute can be stopped. Indeed, the membership of each Brotherhood is substantially larger than the total number of men employed in the grade concerned.

The reason for these paradoxes is that the Brotherhoods, like the great British craft-Unions, lay very great emphasis upon the benefit side of their work, which is the more valuable because of the absence of any system of social insurance in America. They are quite as much provident societies as protective organisations. Every member is compelled to subscribe for some benefits (insurance for death or disablement), and may also subscribe for others (e.g. pensions). The funds for each of these are scrupulously kept apart, and very elaborate reports are circulated annually. In no case may the benefit funds be trenched upon for strike or other purposes : this is a fundamental rule. The benefits have no surrender-value : all contributions are lost if a member withdraws. That is why, for example, the Order of Railway Conductors has 60,000 members, though there are only 39,000 Railway Conductors in the country—members who have left the craft go

on paying. The benefit subscriptions give the Brotherhoods large funds to handle, and that is probably the reason why they have been drawn into the field of finance.

On the protective side of their work the significant thing is that national negotiations are only used in the last resort. Each of the four hundred railways is divided into one or more districts for the handling of grievances. There is a general negotiating body for each line, with a salaried president whose pay is provided by special levy on the members working on the line. These bodies settle innumerable questions as they arise ; and only when they have failed is the central organisation called in. No strike, local or general, can be called without a ballot of the men concerned, and the most elaborate precautions are taken to ensure that the issue shall be fairly stated on the ballot-paper, and that no illicit voting shall take place : the secretary of each lodge receives a number of ballot-papers exactly corresponding with the membership in the lodge, and has to account for every copy. Even after a favourable ballot, no strike can take place until the arbitration machinery provided by the Railroad Labour Act of 1920 has been used.

The Brotherhoods make it a matter of principle that there shall be no general stoppage of railway services. Even when, as in 1921, there is a dispute affecting all the railroads, their system is to limit the area of the strike. In that year (when a general breach was very narrowly averted) the Brotherhoods, acting in conjunction, had arranged to divide the railroads into ten groups, each group being distributed over the country ; and the strike was to begin with one group and only be extended if necessary. The calculation was that the railroads in the first group would be eager to stop the diversion

of their traffic to competing lines ; that the men on strike could be supported on full pay by the men still at work ; and that the public would not be alienated, since competitive services would always be available.

By these piecemeal methods, which constitute their regular policy, the Brotherhoods have succeeded, in spite of their highly localised organisation, in achieving very high uniform rates of pay throughout the country. They despise and condemn the method of striking against the public adopted by the British Unions. But in general they strive to avoid strikes, and it is significant that their Strike Funds are limited in amount—in the case of the Conductors to \$500,000. As soon as this figure has been reached, the dues levied from members are reduced.

The relations between the Brotherhoods and the Railroad Companies are now of the most friendly character. The Brotherhoods have even fallen in with the system of Company Unions which the Pennsylvania and other roads have instituted. Their organisation on the basis of companies makes adjustment easy.

The Clothing Workers and Joint Control

The Railway Brotherhoods, which stand on their own feet outside the Federation, are old and solidly organised bodies, concerned with a prosperous class of workers of the highest grade. The Amalgamated Clothing Workers' Union, which also remains outside of the Federation, is a body of a different kind. It is of recent origin, dating only from 1910. It is concerned with a class of workers who have been in all countries among the most helpless, and who are, in America, largely foreigners of many different stocks. Yet this young body, with its difficult and

scattered clientele, has carried out what may fairly be described as the most remarkable piece of constructive work attributable to any Union in any country. That it has done so is mainly due to the ability of its President, Mr. Sydney Hillman, who is to-day, while still a young man, probably the most striking figure in the American Trade Union world.

Mr. Hillman professes the Socialist creed, but there is nothing specifically Socialist in the remarkable industrial structure which he has been mainly responsible for working out. It is essentially a system of joint control, in which management and Trade Union work together in harmony to produce efficiency and a high output, and the employers are fain to acknowledge that they owe to the help of the Union a freedom from friction and a prosperity such as they could not otherwise enjoy. In a trade wherein discontent was formerly rampant, the strike has been practically banished.

This impressive achievement was the outcome of a prolonged and bitter strike in the year 1910 among the tailoring workers of Chicago, who were suffering from terrible conditions. Dissatisfied with the way in which the dispute was being handled by the Garment Makers' Union, to which those of them who were Unionists belonged, the Chicago strikers broke away from this body and formed a new Union, which (after some changes of style) is now known as the Amalgamated Clothing Workers' Union.

This gave Mr. Hillman his chance. He and a group of able colleagues negotiated a settlement in the first instance with the great firm of Hart, Schaffner & Marx, who employ some 4,000 hands in the manufacture of ready-made clothing: their products are known all over America. The agreement was negotiated on the employers' side

by Mr. Schaffner, who deserves a large part of the credit for a significant new departure. It has become the model for a series of agreements or contracts made by the Union either with particular firms or with local groups of employers, which establish a new relation between the employers and their organised workers.

These contracts are not limited to the settlement of wage-rates, but cover practically the whole of the formal relations between employer and employee. The contracts are made by the Union, which accepts responsibility for seeing that they are carried out, but the detailed execution of them is left to the local lodges, mostly consisting of the actual work-people, so that the employer feels he is dealing with his own workers, and not with a dictatorial outside body. It is significant that no attempt is made to reach a uniform, nation-wide agreement: Mr. Hillman holds that special contracts are both more elastic and more easy to enforce.

The main features of these agreements, and of the organisation which they establish, are as follows:

(1) The employers agree that, in making new appointments, they will always give preference to workers recommended by the Union. There is no insistence upon the exclusive employment of Union members. But in effect this arrangement confers upon the Union the functions of a Labour Exchange, and gives it the chance of regulating the flow of labour into the industry. It is a power that might be badly used. But it seems to have been well used, the Union being resolved that the trade shall not be "let down."

(2) Substantial wage-rates are fixed, such as can only be paid with efficient production, and the Union pledges itself to do everything in its power to obtain satisfactory output. In some shops where

this system is at work, you will see a Union representative, sent in because there has been a complaint that production is going down : it is his business to discover what is wrong, and who is to blame. If the fault is with the workers, disciplinary measures will be taken ; the offender, if he is recalcitrant, will not easily get another job. If the fault seems to be with the management, representations and suggestions will be made to it. The Union's local representatives freely consult with the management on the means of attaining maximum efficiency without over-pressure, and its experience and knowledge give much value to its advice. In short, the Union insists upon good wages ; but it equally insists upon good work.

(3) For the settlement of all disputes or grievances, including unfair dismissals, a joint committee is set up, consisting of equal numbers from each side, with an impartial chairman from outside the trade, who is jointly appointed but can be dismissed by either side. His salary is paid half by the employers and half by the Union. In effect his is the determining voice. The mere fact that such an officer exists, and that he belongs as much to the employees as to the employers, changes the atmosphere of the factory. A very large number of cases are brought before him—enough to occupy his time for half the week ; and this mass of precedents gradually builds up an accepted system of case-law.

The first chairman at Hart, Schaffner & Marx's so fully commanded the confidence of both sides that he held office until his death. Elsewhere changes have been more frequent. But beyond question this quasi-judicial system of avoiding disputes works. Its methods were described to me, with warm admiration, by a college professor who had acted as chairman for two years for the

grouped clothing firms of Rochester, N.Y. He felt that a real solution had here been found for one of the most difficult of industrial problems; and it has been found, and works well, in one of the most difficult of trades.

The system as a whole, with its provisions for dealing with (a) recruitment, (b) the relation of output and wages and (c) disputes, is a genuine system of joint control in all that sphere to which joint control is appropriate. It does not invade the legitimate sphere of management, but helps and strengthens management, and reduces the risk of a collapse through inefficiency, which is even more serious for the workers than for the employer. It works equally well whatever the size or scale of the enterprise. It has all the virtues of the shop-committee system, bringing representative employees into conjunction with the management; but at the same time gives to the employees the sense that they have their Union behind them, with its enforceable contracts. It encourages maximum output without over-strain, and secures a wage for the worker as high as the industry will bear.

In order to do justice to the large responsibilities which it has thus assumed, the Union has had to equip itself in a way unusual among Trade Unions. It has an economic adviser of University rank—Mr. Leo Wolman, formerly a teacher of economics at Columbia. It employs accountants of the highest reputation to investigate the books of firms with whom contracts are being made, and is sometimes able to give welcome advice on the organisation of the business and its methods of costing and accounting. It has opened two banks, primarily to deal with the deposits of members, and to help them in investing their savings; but one of the main purposes of this banking enterprise is to give to the

heads of the Union the kind of financial experience which they need for their new functions. In at least one instance an advance of capital has been made to a firm with whom the Union was in contract-relations. In short, under this system the Union has become an invaluable contributor to the efficiency of the industry as a whole ; and the most valuable product of its work is that industrial peace and mutual confidence have been substituted for conflict and suspicion.

It is impossible to imagine a greater contrast than that which distinguishes the Amalgamated Clothing Workers under Mr. Hillman's guidance from the sister trade of the women's cloak and skirt-makers. This trade has been for years a centre of trouble ; and the trouble came to a culmination last year (1926). If the Clothing Workers afford a model of the pacific and constructive work that a Trade Union can carry on, the Cloak and Skirt Makers provide an instructive example of the mischief which can be done by a Union that is bent merely upon destruction.

The women's garment trade, which is mainly concentrated in New York, presents many difficulties. It is highly seasonal ; it is largely in the hands of sweating contractors ; and its workers are mainly ignorant aliens. It has long been a much troubled trade ; and its Union (which is quite distinct from Mr. Hillman's Union) has intensified instead of allaying the difficulties.

In 1925 the Governor of New York appointed an advisory commission of enquiry to report on the trade. The commission (which included Mr. Leo Wolman, economic adviser of Mr. Hillman's Union) carried out a thorough investigation, and produced an extremely able and well-balanced analysis of the problem—as good an analysis as

I have ever seen of the conditions of a particular trade. They also made a number of valuable recommendations for the reorganisation of the trade, highly favourable to the workers, and to some extent modelled on the existing practices of the Clothing Workers. The scheme was, in fact, a very suggestive plan for a system of joint control.

The employers accepted these proposals—not without misgivings, which were reasonable in view of the character of the men who would have had to work them on the other side. But the Union, or its New York local branch, refused to accept them, being dominated by a group of extremists of the Communist persuasion, largely Russian-Jews, whose aim was to make capitalist industry unworkable, and who were therefore unwilling to accept responsibility for a system of co-operation. A long and bitter strike followed, which was only terminated at the end of 1926. During its course the Union employed every method of terrorism to prevent its members from going back to work. They even seem to have hired for this purpose some of the professional braves who exist, to the number of about two hundred, in New York, under some obscure protection. A group of these ruffians were captured and brought to trial for barbarous tortures inflicted on some of the work-people, and for arson in certain clothing warehouses. During the trial an agreement was almost reached in the strike: it broke down because the employers refused to withdraw the prosecution of the gangsters as part of the terms. In the end, the national headquarters of the Union descended upon New York, and insisted upon a purge of the extremists; after which a settlement on the basis of the Commission's report was easily reached. Time alone will show whether

a scheme of co-operation can work in a trade where such intense bitterness has been stirred up.

The foregoing pages do not pretend to present a coherent view of the working of American Trade Unionism as a whole. They deal only with some of its more distinctive and significant aspects; and these may easily have been misrepresented or distorted by a foreign observer unable to go into the detail which alone gives reality to a picture.

But perhaps enough has been said to justify the conclusions that American Trade Unionism, with all its superficial resemblance, is profoundly different in character and aims from British Trade Unionism; that it is engaged upon a variety of experiments some of which are extraordinarily suggestive; and that its most remarkable achievements are of a kind which suggest a growing divergence from the line of advance which the British Unions have chosen to pursue during the last generation. These experiments aim not at the overthrow of "Capitalism," but at its democratisation. They seek not to abolish private ownership, but to extend it; and not to put an end to private enterprise, but to yoke the enterprise of employer and workman in a common endeavour to increase the amount of divisible wealth, and to divide it justly.

CHAPTER X

SOME EXPERIMENTS IN INDUSTRIAL ORGANISATION

AMERICA is pre-eminently the land of experiments. Just as the head of a big business is prepared to scrap his costly plant and install new machinery, sometimes without full consideration, so he will (if his interest lies in this direction) try new methods of organisation, and scrap them again after a brief trial if they have not fulfilled his sanguine expectations. The result is that, scattered here and there amid the mass of normally organised concerns under the control of companies of the usual pattern, there is a great variety of experimental devices in various forms of co-partnership or workers' control. Some of these deserve study, even though they may be small in scale. They are evidences of that questing spirit, taking nothing for granted, which is one of the creative forces in modern American life.

In this chapter I propose to examine briefly a few of these experiments, picking out those which have some novel and distinctive feature, and which are either widely known or have come under my own personal observation. I have chosen half a dozen schemes of varying types, illustrating various methods, but all alike significant because they are essays in the direction of workers' partnership and a more democratic organisation of industrial control.

The first, and perhaps the most instructive, of these schemes is the system of organisation adopted

by the Dennison Company, of Framingham, Mass. Its main value is that it affords a method of getting rid of control by the functionless shareholders, without dispossessing them. The second, the J. C. Penney scheme, is a plan for enlisting the ambition and energy of the employees in the development of a "chain-store" system. The third, adopted by the great Boston store of William Filene's Sons, is perhaps the most successful scheme of workers' control yet adopted in a big distributive concern. The fourth, the scheme of the Philadelphia Rapid Transit Company, has increased efficiency and got rid of friction by means of worker-ownership. The fifth, the Franklin Co-operative Creamery of Minneapolis, is a very remarkable and highly successful example of the invasion of business by labour organisations. The sixth and last, the amazing story of the Arthur Nash Company, provides an extraordinary illustration of the practical success that may attend the uncalculating pursuit of a purely ethical ideal.

i. The Dennison Scheme

The Dennison Manufacturing Company is an old-established concern, until recently under family control. It is engaged in the manufacture of jewellers' and other fancy boxes, luggage tags and labels, crêpe paper, sealing-wax and a multitude of other small products. Its output is so diversified that the methods of mass-production are wholly inapplicable to it. On the other hand, it presents an infinite variety of opportunities for initiative: it is a kind of business in which there is room for what may be called "managerial" gifts at many points. This has a very direct bearing upon the problem of its organisation.

When the present head of the firm, Mr. Henry

Dennison, took charge some years before the War, the business showed signs of that stagnation which is apt to overtake old family concerns. Mr. Dennison was a man of daring ideas. He had the courage to put them into operation. Having control of a majority of the shares, he had also the power. He used it to carry into effect a very remarkable scheme of reconstruction which, while falling under the provisions of company law, raises some quite fundamental questions of industrial organisation and control, and solves them in a very novel way. The scheme has been extremely successful. Mr. Dennison is a man who would have made a success out of any scheme he had to work ; but there is, I think, no room for doubt that the principles of industrial control which he has established have been in a large degree the cause of his success.

Mr. Dennison's fundamental idea was that the absentee or functionless shareholder, who contributes nothing but his money to the success of a business, has no moral right to control it, and is likely to control it badly, thinking only of dividends and not of efficiency. The shareholder who is only a shareholder has, on this view, a right to a fair return, to security, and to reasonable guarantees against mismanagement ; but no more. Even in his own interests, ultimate control ought not to rest with him, but with people more competent to judge the efficiency of the concern and the difficulties it has to encounter.

Where is such a body to be found ? Some would say " in the body of workers." But the great mass of workers in a factory are necessarily engaged upon tasks which make no serious demand upon their intelligence : they cannot be expected to form sound judgments upon business policy. Among them, however, there are many—especially in a

business so diversified as the Dennison business—who are constantly called upon to take responsibilities, to make decisions, to show initiative: such are departmental managers, buyers, salesmen, designers and foremen. The business constantly depends upon their knowledge, loyalty and adaptiveness. Here, Mr. Dennison concluded, was the body which could best exercise control and test efficiency. The experience of a number of years has shown that in a diversified business of this kind they number something like 8 or 9 per cent. of the whole body: in this case, about 300 out of a staff of some 4,000.

But it would not do merely to disfranchise all the shareholders and transfer authority to this large body. Their responsibility must be brought home to them in the only way which long experience has proved to be efficient—by making them realise that they will personally profit from efficiency, and personally lose by inefficiency. How could this be done under the terms of company law, without injustice to the existing shareholders? The value of the Dennison scheme lies primarily in the solution which it found for this problem.

In the first place, all the existing shares (they were all ordinary shares) were turned into cumulative preference shares, Class A, with a fixed dividend, but with no voting rights except in the event of a failure of dividend. So long as the business prospered, they were thus assured of a good return on their money; and the later provisions of the scheme gave them additional security.

In the second place, the scheme provided that all surplus profits after the payment of dividends should go back into the business; but that the new capital thus created should be allotted, in the form of ordinary shares with voting rights, to all active workers in the business who belonged to the

managerial class, from the President downwards, the allocation being in proportion to salary, i.e. in proportion to the degree of responsibility which fell to each. The managerial class was broadly defined, but the Board of Directors was left free to add to this class any individual who had earned this promotion by initiative and energy.

It is a proof of the success of the scheme that within a dozen years of its initiation the amount of new capital thus created was greater than the original capital. The holders of these shares—all actively engaged in the business in responsible positions, and all now having a financial interest in its success—were endowed with final control. They elect the Board of Directors; and Mr. Dennison, having denuded himself of control, and left himself only the share of voting-stock proportionate to his salary—4 per cent.—was now dependent for his continuance as President upon being able to command the confidence of 300 employees, all salaried like himself.

It was further provided that stock of this class, while the absolute property of its holder, could not be sold; and that when, for any reason, any holder withdrew from active work in the business—even if it were Mr. Dennison himself—his voting stock should be replaced by an equivalent amount of B preference stock, which could be freely sold, but would carry no voting-rights. It was thus ensured that the business should always remain in the control of those who were actively and responsibly engaged in it.

The long-severed connection between work, ownership and responsibility was thus restored. At the same time the creation of these two blocks of capital, B preference and ordinary, constituted a very solid safeguard for the original shareholders.

These, however, are to be gradually bought out. Each year, when the results of the year's working are before them, the Directors, after providing for the preference dividends, assign a certain proportion of the residue for this purpose. Then they decide how much of the remainder shall be used for dividends on the ordinary stock, and how much for the creation of fresh stock. The shareholders prefer a big stock-distribution to a big dividend.

Now it is plain that this is a scheme of organisation which is well calculated to lead to keenness and efficiency in the conduct of the factory, all the more so since the stimulus is given to just those men or women whose personal effort can make the greatest difference. But in all this there is no provision for the mass of ordinary workers. So far they have been provided with no share of profits, and no share of control.

At first it was felt that the best form in which they could be enabled to share the prosperity of the firm would be through various forms of welfare work, together with help in making investments with their savings; and to this there was later added a system of insurance against unemployment. Moreover, from the beginning they were given a very full share of control over the conditions of their work by means of an elaborate and carefully thought out system of elected shop committees, to which a quite unusual degree of authority was assigned within the sphere allotted to them. So far as it goes, this is a genuine system of industrial self-government—more genuine and more free than most that I have seen; and it seems to work exceedingly well.

But there was at first no system of profit-sharing for the wage-workers, only for the salary workers. Indeed, the workers themselves at first preferred

this: they were distrustful of profit-sharing, as are many English workers, perhaps because the divisible amounts are necessarily small, while they are apt to seem like carrots dangled before a donkey's nose to persuade him to strain himself. Later, however, an element of profit-sharing was added: the share of surplus divided among the managerial class was cut down to two-thirds, and the remaining third was allotted in shares, without voting-rights, to the rank and file employees in proportion to their length of service.

The noteworthy features of the Dennison scheme are, *first* the success with which the "functionless" shareholder is disposed of without injustice; *secondly*, the assurance that the business shall always be under the effective control of those who understand it best, and that its responsible head shall have to win their confidence, rather than that of shareholders ignorant of the business and concerned only about dividends; and *thirdly*, the clear and logical distinction between those workers whose personal energy and initiative can affect the prosperity of the business, and who are therefore entitled to a share of control and of profits, and those who cannot so affect it, but who have a right to full consultation in regard to the conditions of their work. There are brains and imagination in this scheme of organisation, and it might well form a model for many other concerns of similar type.

ii. *The Penney Plan*

The scheme of organisation adopted by the J. C. Penney Company for the management of its rapidly-growing system of tailoring shops (now nearly 600 in number) presents no such general features of interest as the Dennison scheme, but it provides a very ingenious solution of a difficult problem.

How is a branch shop which forms part of a big chain to secure something of that close attention which the best of the old retailers gave, because it was their own concern? How are the assistants in such a shop to be given the stimulus of ambition which will lead them to master their business? These questions may not be important in shops which merely provide packets of standardised articles, tea or breakfast-foods, tobacco or patent medicines. They are more important when the individual tastes of the customer have to be considered, as they must be in a tailoring shop.

It is because he found an answer to these questions that Mr. J. C. Penney was able to expand his shops all over the West and Middle-West in a very short time. He found a new partnership device. From his original shop he budded off branches, each under a manager trained in the original shop: Mr. Penney (or the Penney Company) has a two-thirds interest in the profits of these branches, the manager a one-third interest. But these branches are encouraged to start sub-branches; when that happens, the parent firm, the manager of the branch, and the manager of the sub-branch each have a one-third interest. If the sub-branch throws out new subsidiaries, the parent company forgoes its share, and the managers of the branch, the sub-branch and the subsidiary each has his one-third interest. The whole chain is linked together by a common buying organisation, the cost of which is distributed over all the shops.

Under this ingenious system the salesmen in each shop can look forward to having shops of their own; the managers will share in the profits of every branch their energy may create; and every shop is supervised not merely by a central organisation, but by one or two other shops. The system cannot, of

course, be described as an important contribution to the solution of the industrial problem. But it does provide a means of stimulating individual enterprise, which the soulless organisation of a huge selling combine is apt to destroy; and it is an illustration of the fertility in experiment which America to-day displays.

iii. *Self-government in a Big Store*

The great outfitting department-store of William Filene's Sons in Boston has been the field of an extremely instructive experiment in employees' self-government, which has now lasted for more than a quarter of a century. I know of no instance in which a more complete participation in control has been given to a whole body of employees without selection or limitation. It could only have been carried out by men who cared more about a fine experiment in democracy than about making large profits. But it has made large profits also. This method of democratic control works.

After three months' service, every regular employee becomes a member of the Filene Co-operative Association. This body is, in the first instance, a welfare organisation. It is controlled by a Council, elected by a secret ballot of all the members, the Management having no control whatsoever. It has its own club-rooms, restaurant, co-operative bank and clinic, which occupy the top floor of the huge building; and it has unqualified control over all these activities. It runs a weekly paper and a host of clubs of various types, one of which, the dramatic club, produces annually a musical show, written, composed and acted by the members, which holds the boards of a city theatre for a week. So far there is nothing very unusual about these arrangements, parallels to which might be found in many

concerns : they are chiefly important because of the team spirit which they breed.

But the impressive thing is that the Council, elected by the whole body of employees, has the right to make, alter or cancel any store rule. If the change is carried by a three-fourths majority it becomes law, unless the Management vetoes it. And even the Management's veto is only suspensive. It may be overridden by a two-thirds majority on a plebiscite of all the members. In this way the employees can, if they like, decide that the store must be closed at five o'clock, or that Saturday shall be a holiday. I know of no instance in which such powers have been conferred upon the whole body of employees. Yet they do not seem ever to be abused.

There is more to follow. Besides the governing Council, the members of the F.C.A. also elect an Arbitration Committee, whose business is to deal with all grievances, appeals from the decisions of the Management, questions of store discipline, and even dismissals. The Committee has the decisive voice. It can override a decision of the Management. Mr. Edward Filene told me that the only complaint he had to make against the Committee was that they were apt to be too severe in the enforcement of discipline.

Finally, each year the members elect six or more of their own number, from among whom four are selected by the Board of Directors (total membership eleven) to serve as full members of the Board, with an equal share of control over the general policy of the Company, and, of course, full access to all financial facts.

Under this system of unreservedly democratic control, the store has won its greatest successes, having multiplied its turnover many times, and risen to the position of the biggest concern of its kind in the

world. A system which has lasted for twenty-five years and produced such results may be said to be an established success.

But I am bound to record that Mr. Edward Filene, the chief organiser of the scheme, is not wholly satisfied with it. His business life has been largely inspired by a belief in industrial democracy and a desire to do something to forward it by demonstrating that it could be made to work. But when he looks back he is inclined to think that he was in too great a hurry. His reason for taking this view is not that the employees to whom power has passed abuse their powers, or are unduly exacting, or neglect their work, or take rash decisions. His complaint is that employee-control is unduly conservative, and places obstacles in the way of bold experiments.

Mr. Filene believes that the chief need of the moment is to bring mass-distribution to the pitch of success to which Mr. Ford has pushed mass-production, because this would mean the cheapening of the means of life to the multitude ; and he thinks that a mode of organisation more adventurous and experimental than employee-control might have achieved results of great social advantage.

I am convinced that this is an over-modest judgment. The proof which has been given in the Filene store of the practicability, and even of the conservatism, of employee self-government is a social contribution of vastly greater value than all the selling triumphs of the Woolworth one-price shops, and all the catch-penny ingenuity of the Piggly-Wiggly Stores.

iv. *A Tramway System and its Employees*

There is probably no American project of employee-ownership and co-operation which has

attracted more attention than that of the Philadelphia Rapid Transit Company, under the management of Mr. T. E. Mitten. It is the more impressive because of the chaos which preceded it.

In 1910 there was a long and desperate strike on the system, disfigured by all kinds of violence and sabotage: the Company was reduced to the verge of bankruptcy, the men were savage and impoverished, the community was gravely inconvenienced. When the strike was over, Mr. T. E. Mitten was brought in to re-establish the Company's fortunes. He saw that the only hope of success lay in enlisting the good-will and co-operation of the men.

The devices which he adopted are full of instruction, and they won for him the devoted loyalty of the workers. A Co-operative Association was established, to which all employees between the ages of 16 and 46 are eligible: its dues are deducted regularly from the men's pay. It provides a life-insurance of \$1,000, sick benefit, and pensions from the age of 65; it also makes provision for systematic saving and investment by agreed deductions from pay. An elaborate system of joint committees was set up to decide questions relating to wages, working conditions and discipline; any questions which these committees cannot decide by agreement are referred to arbitration. Wages were at first fixed on the basis of an average of the rates paid in four unionised cities.

When this system had been working for ten years, and good-will had been fully restored, Mr. Mitten devised a new scheme for the purpose of ensuring fuller co-operation from the men. It is not easy to devise such a scheme for a tramway system, on which anything in the nature of payment by results is out of the question. Mr. Mitten's scheme was

ingenious. He proposed to the men that if they could save \$1,500,000 dollars on the year's working—enough to pay a dividend of 6 per cent. on the ordinary shares—all further savings or profits should be set aside as a "co-operative wage," above the ordinary wage, up to the limit of 10 per cent. of the wage-bill, and should be invested in shares of the Company held by trustees on behalf of the employees.

This proposal, which would in effect have limited the shareholders' dividends, was violently opposed by some of the directors, and an exciting battle began, in which the men threw themselves hotly into the fray on the side of Mr. Mitten. They invested a large part of the Co-operative Association's stock in shares, so as to obtain voting-rights; they called on all the small shareholders and begged for their support; they filled the newspapers with advertisements vividly contrasting the miseries of 1910 with the prosperity and good-will of 1922. In the end, at a crowded meeting, Mr. Mitten was upheld by a vote of three to one. Since then he has been, in effect, dictator of the Company, resting on the enthusiastic support of the men; and the Rapid Transit Company has become one of the dominating factors in the life of Philadelphia. The men now own one-third of the Company's total capital. Their holding is expanded with each year's "co-operative dividend"; and the time must soon come when they will have a majority control.

In effect, this system represents a combination between management and labour to reduce the "functionless shareholder" to impotence, while ensuring to him a fair return upon his investment. The result would appear to be beneficial to everybody concerned, and not least to the travelling

public. Even the shareholders get a far better return than they did in the days of friction.

This scheme of co-operation is not worked through a Trade Union. But the men are left free to join any Union if they so desire ; and Mr. Mitten has announced his readiness to place the whole system upon a Trade Union basis if the men wish this. Apparently they are content.

The danger of this scheme is that it approaches to Syndicalism. When the employees have a majority of shares, they might in theory plunder the community, especially in a monopolist enterprise such as a street-tramway system. But against this danger there is a sufficient safeguard in the fact that the concern is under the regulation of a State Public Utilities Commission, which has to approve of the fares charged.

v. *A Labour Enterprise*

In an earlier chapter I have said something about the large-scale enterprises of some of the greater American Trade Unions, especially in the field of finance. The Franklin Co-operative Creamery provides an illustration of an enterprise initiated, but not controlled, by a Trade Union in a strictly local field.

In 1920 the milk-drivers of Minneapolis struck against the milk-dealers for better wages and recognition of their Union. The strike, like all strikes, inflicted heavy loss upon both sides, but it was in a peculiar degree dangerous to the community, because deprivation of milk hurt every child in the city. The Trade Union recognised that this was so, and set themselves to find a better way of winning their ends. Why should they not themselves organise the sale of milk ? They were not at once able to carry out this project. But they set it on

foot when the strike was over. A company was formed with the style of the "Franklin Co-operative Creamery." It was financed partly by Trade Union funds, partly by individual contributions from workmen. One of its fundamental rules was that every employee must be a shareholder and also a member of his Trade Union; and it was further proposed that surplus profits, after the payment of a fixed dividend, should be distributed among the customers in proportion to their purchases. This was the "co-operative" element in the scheme; but it has proved to be impracticable, and the only relic of it is a clinic for children which is open to customers.

The success of the enterprise was remarkable. In a very short time it had obtained half the milk-trade of Minneapolis. This formidable competition also forced the hands of the independent milk-dealers. They had to agree to Trade Union rates; and in order to reduce expenses, they were forced to amalgamate, so as to avoid the waste of sending several carts down the same street. Now two carts visit each street; and the element of competition is sufficiently keen to prevent either from exploiting the public.

This would seem to be an admirable illustration of the kind of constructive work which a labour organisation can well carry on, serving itself, its members and the community at the same time; and finding, in the process, a far less wasteful means than warfare of achieving its primary end, that of improving the wages and conditions of labour. As in the case of the Philadelphia Rapid Transit Company, the experiment suggests a pointed contrast between the results of the strike method and the results of the constructive method. Would that the latter were always a practicable alternative!

vi. *The Strange Case of Golden-rule Nash*

The remarkable story of the clothing firm of Arthur Nash is too full of paradoxes, and too much the expression of a single exceptional personality, to give much guidance in the framing of an industrial policy. It is a fairy-tale, and full of charm ; but only a man inspired by a sort of evangelistic fervour, and capable of communicating it to those who worked with him, could hope to reproduce its methods with success. Even then he would fail, if what attracted him was the material advantage to be reaped from these methods. Nevertheless, there is much that is instructive in the story. It affords remarkable illustrations of the striking results that may flow from the payment of generous wages, and from the placing of confidence in work-people.

At the end of 1918 Mr. Arthur Nash, a wholesale tailor in Cincinnati, passed through an economic and a spiritual crisis at the same moment. The spiritual crisis was the more important. It arose from the emotions of the War, in which two of his sons were engaged. He was driven back upon the New Testament ; and, reading it afresh with heightened comprehension, he reached the conviction that its essence was the Golden Rule, and that this, and not any calculations of profit, must in future be his rule of life, in business as elsewhere. This had a close bearing upon the economic crisis through which he was also passing. Business was doing badly. He had lost during the year \$4,000 of his total capital of \$60,000. He resolved that, if things did not quickly mend, he would abandon the tailoring trade and buy a farm with what remained of his capital : perhaps he thought that life according to the Golden Rule would be easier on a farm than in a trade which largely depended upon sweated labour.

He had actually begun to look out for a farm when he was persuaded by pity to buy a small making-up business which had previously worked for him. He had hitherto had no contact with that side of the business. The first thing he did on taking over the new responsibility was to go over the pay-roll. He read it with horror: the Golden Rule would not permit him to continue such rates. So he went into the workshop, told the astonished workers about the Golden Rule, announced that all their wages were raised—as much as 300 per cent. in the case of the worst paid workers, and not less than 50 per cent. in the case of the best paid—and asked them also to try the Golden Rule in their relations with himself. Then, satisfied that his capital would not last long at this rate, he went off to Indiana to look for farms, against the time when he would have to give up business.

At the end of a month he returned, and went to his office to find what the loss had been. Instead of a loss there had been a big profit; because output had improved amazingly both in quality and in quantity. During the course of 1919 sales were multiplied fourfold. New premises had to be taken. Two further increases of wages were voluntarily given. Yet at the end of the year there was a profit of \$42,000 on the \$60,000 capital. Such were the practical results of the Golden Rule.

The profits had all been invested in the expansion of the business. But Mr. Nash felt that he had no right to the new capital thus created, and he told his work-people so, proposing that they should accept a distribution on a profit-sharing basis. At first they refused to do so, content (as they well might be) to leave their remuneration to his decision. But later they were persuaded; and Mr. Nash drew out a scheme of distribution in proportion

to wages. The scheme was criticised by the more highly-paid workers, who all united in a demand that the basis of the distribution should not be the amount of pay received, but the length of time worked : thus some of the worst paid workers would get more than the managers and foremen. This was what the Golden Rule suggested.

In 1920 a severe depression struck the United States. Mills and factories were closed on all hands. There were five million unemployed. There was a "buyers' strike," and thousands of tailors—not in Nash's, but in other firms—were thrown out of work. The Nash employees held a meeting, and agreed that the Golden Rule imposed upon them two duties : first to reduce the price of clothing, because people could not afford the old prices ; and secondly to find work for as many unemployed tailors as possible. To make this practicable, they proposed to Mr. Nash that their wages should be reduced all round, and that they should "stand off" without pay for three separate months during the year, if that was necessary to give a chance to the unemployed. It was never necessary. Prices were reduced. New workers were taken on. A new factory was opened. And the result was that during the year sales were again multiplied threefold, rising to \$1,500,000.

In 1921 the sales rose only to \$2,000,000, because this was the full capacity of the existing factory. In 1922, with extended accommodation, they rose to \$3,750,000. By this time the capital of the concern—all, save the original \$60,000, provided out of profits—had risen to \$1,000,000, of which half was held by the employees. This amazing progress has continued. On the last figures I have seen, the employees' holdings amounted to 67 per cent. of the total, and they could control the business.

But there is still another chapter in this astonishing sequence of paradoxes. Mr. Nash came to the conclusion that he and his people ought to join the Clothing Workers' Union, and adopt its methods of regulation. He told his workers so. They replied that they had never been members of the Union, and saw no advantage in joining it. They did not give way until the evangelist employer had brought down Mr. Hillman, the head of the Trade Union, to help him in persuading them. Is not this the culmination of paradoxes—the employer begging his work-people to join a Trade Union, and the work-people resisting, and only yielding out of sheer affection for their employer?

Such a sequence of paradoxes as this can scarcely be regarded as providing a model capable of being imitated, or likely to be imitated, in ordinary business practice. What a different world it would be in which this story would seem commonplace! It shows, indeed, that the Golden Rule *can* be applied in business by a man of apostolic fervour; but that, alas! is not a condition which can be made normal. Yet even on the most prosaic reading, the story does very pointedly illustrate the economic value of high wages, and, still more, of the spirit of partnership (or, as Mr. Nash would prefer to call it, brotherhood) among the managers and workers of an industrial concern. For these are the solvents of anger and hate, which are the grit in the wheels of progress.

CHAPTER XI

SOME CONCLUSIONS

THE reader who has persevered as far as this page will not need to be told that this little book is not a systematic treatise. It does not attempt to survey the conditions and methods of American industry. Still less does it pretend to frame any sort of judgment upon American civilisation. These great themes are too high for me. I have been content to put together, in a series of more or less disconnected chapters, some notes and comments upon a few aspects of American industrial development; and I have chosen those aspects which seemed to me to have some bearing upon our own very different industrial problems. Beyond a doubt I have left untouched many other themes of equal or greater import.

There are some features of the American system, often commended to our admiration and imitation, which seem to me either to be wholly inapposite to our problems, or to be impossible of imitation, or to be inspired by ideas which it would be fatal for us to adopt. I have touched on these very lightly, because it is not my business to criticise American policy, but only to discover, if I can, where American methods may be helpful to us.

Thus the policy of economic self-sufficiency, enforced by means of high protective tariffs, which America has consistently pursued for two genera-

tions, may or may not be advantageous to America : in our circumstances it would be ruinous.

Again, America has steadfastly refused to adopt the policy which all other industrial nations have been driven to adopt, of using the machinery of social insurance to protect their citizens against the unpredictable risks of industrial life. She may be right in insisting that every man must provide against these risks for himself, because it may be possible for the American workman to make such provision. It is not possible for the English workman, and the system of social insurance has become a fundamental element in our social order, which profoundly influences the relationship between industry and the State.

Again, important elements in the direction of American industry are determined to have nothing to do with organised labour, and are eager to prove that labour will prosper best under the benevolent despotism of Big Business and without the aid of Trade Unionism. Time alone will show whether this policy will be victorious and what its consequences will be. The question has little bearing upon our conditions. Our industrial system is built upon a recognition of the rights of organised labour, and our future depends upon the possibility, not of weakening Trade Unionism, but of strengthening it and enlisting its co-operation in constructive work.

Again, a large part of America's industrial success is due to the fact that the nation as a whole regards wealth-making as the highest form of human activity, so that industry engrosses, in a passionate concentration, nearly all the best minds of the nation. With our traditions and our inherited values, it is impossible that we should ever accept this view ; and if it were possible, most of us would

be reluctant to accept it. Not long since an English visitor, after addressing the sixth form of one of the most famous of American schools, was asked by the boys what was the difference between their school and Eton or Harrow. He countered with another question, asking how many of them were going into business. They were all going into business. "There," said the visitor, "is the difference. If I asked such a question at Eton or Harrow, no doubt some of the boys would be going into business. But others would be going into politics, or diplomacy, or the army, or scholarship, or administrative work, or the management of a landed estate, or the government of some dependency." This is a contrast which accounts for much. It cannot be changed, and we do not want to change it.

Yet again, we are told that the wealth of America largely springs from her adoption of the methods of mass-production, and that we ought to imitate them. In some limited fields, no doubt, we may apply something of the American method. But the success of mass-production depends upon access to an immense market of great uniformity of taste, such as America possesses at home. Our much smaller home-market is much less uniform in its tastes; and we live by supplying the needs of world-wide markets, infinitely variegated. Our strength must lie—if we are to prosper—in quality production and diversified output; by these means alone shall we be able to overleap the tariff barriers which hem us in.

Finally, thanks to her forty-eight State legislatures, America offers to the organiser of industry the choice of an infinite variety of systems of regulation; and this leads to a strange laxity in company finance, and gives to the promoter a danger-

ously free hand. Our own system is lax enough and needs to be improved. But at least we can do what seems necessary ; America, in practice, cannot. This is a form of freedom for private enterprise which we cannot imitate, and should not wish to imitate.

In all these respects any attempt to reproduce systematically the American model would not only bring us no advantage, but might ruin us ; moreover, such an attempt would be, for the most part, as impossible as an attempt to reproduce that inexhaustible command of varied natural resources which is the ultimate source of American wealth. Our problems are our own, and we must find our own ways of solving them.

Yet there are certain features of the industrial life of America which are at once capable of being imitated and worth imitating. It is with these that we have mainly been concerned in the foregoing chapters. Four things seem to me to stand forth pre-eminently in the America of to-day : four developments full of hopefulness and eminently worthy of imitation. The first is the systematic endeavour to bring about a wider and more healthy distribution of ownership, which is discussed in Chapter IV. The second is the general disposition to use scientific methods, to spend freely upon research, and to regard management as a highly exacting and responsible profession, for which scientific training is needed ; this has been touched upon in Chapter III. The third is the widespread readiness to try experiments in new forms of industrial organisation, of which some illustrations have been given in Chapter X. The fourth is the development of a new attitude and policy in some of the more progressive Trade Unions, which is analysed in Chapter IX.

It is in these four respects that, in my judgment, America has most to teach us. All four are important. But immeasurably the most important of the four is the attempt to bring about a wider distribution of ownership; because this movement, however imperfect its methods and however mixed its motives, does at least aim at the heart of the supreme social problem of our time.

No one who has given much thought to the problem can have failed to reach the conviction that the root cause of social unrest is the maldistribution, not so much of income, as of property or capital. By far the greater part of the capital equipment of every industrial nation belongs to a very small proportion of the population: in England, for example, it is estimated that two-thirds of the nation's capital is owned by less than 2 per cent. of the adult population. This state of things gives plausibility to the assertion that the nation is divided between a small owning class which lives mainly by owning, and a huge working class which labours for the benefit of the owning class. And although this is an inaccurate statement of the case, since most of the owners work and many of the workers own at least a little property, yet the statement is near enough to the facts to have the sting of truth in it.

Moreover, this state of things is apt to get worse as industry progresses. For every stage in industrial progress is marked by an increase of mechanism—that is to say, by the provision of a larger capital equipment for each unit of labour. Accordingly the proportion of the product that must necessarily go as payment for the use of capital must increase; and even if labour gets higher wages, the disparity between its reward and that of capital must become more marked. This is the process which has in

fact been going on for a hundred years, and Socialism is a protest against it.

But Socialism—the substitution of public ownership for private ownership—is an illusory remedy. For if the private owners are got rid of by confiscation, saving will cease, no new capital will be available, and industry will slow down until it stops. And if the private owners are bought out with Government stock, and new capital is raised in the same way, the only change will be that the owners will draw a fixed instead of a variable rate of interest, and will cease to be exposed to risks. Instead of diminishing the contrast between the owning class and the working class, this change would in the long run intensify it.

The only remedy is to be found in a wide distribution of ownership, until it becomes normal for every worker to be also an owner, and to derive part of his income from this source as well as from the wages of his labour. Unless we can by some means open the way to this consummation, we shall not attain to social health: nay, social unrest will increase in proportion as industrial progress advances.

American business has, however vaguely, grasped this truth, and is setting itself to bring about a wider distribution of ownership. The methods adopted may not be the best, or the only, methods. But at least the end is realised, and is being systematically pursued, which is not yet the case in England. America has set before herself the aim of banishing from her society the "propertyless proletariat," and creating a society whose members shall all be owners and workers at once. In this regard, and in the others which I have named, we ought not to be ashamed to imitate her, even though there are other aspects of her triumphant progress

which we either cannot, or do not wish to, imitate. It is perhaps in this path, which Mr. Henry Ford regards with contempt, that America may prove to have most profitably led the world towards a practicable solution of the social problem.

From 1881 to 1882

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